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TO: Montana Local Government Officials and Staff and Others Interested In Public Facilities Financing

FROM: Robb Mc Cracken, Manager, Treasure State Endowment Program (TSEP) RMc

DATE: February 3, 1994

RE: 1994 Draft Guidelines For the Treasure State Endowment Program

PLEASE RETURN

Background

In June of 1992, Montana voters approved Legislative Referendum 110 which established the Treasure State Endowment Program (TSEP). The TSEP is a state-funded program designed to assist local governments in financing the construction or repair of: drinking water systems, wastewater treatment facilities, sanitary or storm sewer systems, solid waste disposal and separation systems, and bridges. Cities, towns, counties, and county or multi-county water, sewer, or solid waste districts may apply for TSEP funds. The Montana Department of Commerce (DOC) administers the TSEP. Applications for funds are reviewed by DOC and approved by the Montana Legislature.

During the 1993 funding competition, DOC received 32 applications. The 1993 Legislature approved 24 projects for TSEP funding for a total of $4,134,458. Most of these projects are now underway.

Draft TSEP Application Guidelines

We have enclosed for your review and comment, a copy of the Draft TSEP Application Guidelines for the 1994 funding competition (for consideration by the 1995 Legislature) which were prepared by DOC staff. The Draft Guidelines explain how local governments may apply for TSEP financial assistance. The Draft also outlines DOC's proposed policies for evaluating applications.

DOC is soliciting public comment on the Draft Guidelines. Please submit your comments in writing so that your statements can be reviewed by DOC staff. Written comments may be submitted until February 24, 1994. In addition, you may provide comments at a public hearing which will be held on Wednesday, February, 16, 1994, at 2:30 PM in the large downstairs conference room at the Montana Department of Commerce Building, 1424 Ninth Avenue, Helena. Interested persons may present their views, orally or in

writing, at the hearing.

Major Changes in Draft Guidelines

The following are a few of the major changes in the Draft Guidelines.

1. The 1993 Legislature passed SB 312 which changed the Legislative (statutory) criteria for the priorities in awarding funds. The new legislation adds an additional criterion and changes the priority order of other criteria.

2. For each of the Legislative criteria, DOC has listed a series of questions to clarify for applicants the type of information needed for DOC review of local applications and how the information provided relates to ranking applications in priority order for funding.

3. County or multi-county water, sewer, and solid waste districts are now eligible to apply on their own behalf, as a result of passage of Senate Bill 312.

4. DOC is proposing a ceiling on the amount of funds allowed per application for grants and annual debt service subsidies, as a means of more widely distributing TSEP funds to more applicants.

5. At the suggestion of members of the 1993 Legislature's Long Range Planning Subcommittee, DOC is proposing a policy to encourage installation of water meters for projects proposing water system improvements. The policy is a means to promote water conservation, encourage effective water system management, reduce long term water system operating costs, and promote equity in rate structures.

Application Workshops To Be Held

Workshops will be held to inform potential applicants and interested persons on how to apply for TSEP funds. The workshops will include information on sources of funds from other state and federal funding agencies. The workshops are being co-sponsored by DOC and the Montana Water Environmental Association, under the auspices of the Montana Water and Sewer Agencies Coordination Team. A brochure with all details, including meeting sites, will be mailed to you soon. The workshops are scheduled for:

MARCH 23, 24 -- Billings
MARCH 30,31 -- Missoula
APRIL 5,6 -- Great Falls
APRIL 13 -- Glendive

Deadline For Applications and Coordination With Other Funding Agencies

The deadline for TSEP applications is June 15, 1994. Because TSEP applications must be approved by the Legislature, applicants can apply only once every two years for TSEP funds.

Many state and federal funding agencies are considering changes in their programs to better serve communities and to improve public facility financing in general, at both the local and state levels. Under the auspices of the Montana Water and Sewer Agencies Coordination Team and the Montana Rural Development Council, three separate funding programs have set their application deadlines and are designing their application forms to help make application preparation and review a more efficient process, for the applicants and the funding programs. These three funding programs are the Treasure State Endowment Program (TSEP), the Community Development Block Grant Program (CDBG), and the Department of Natural Resources and Conservation Renewable Resource Program (DNRC).

Because of these changes, local governments seeking funds from two or all three of these programs can develop more effective joint funding strategies. This will make it easier to combine different sources of funds to finance a single local project. Funding deadlines for public facilities applications for all three programs are:

May 15 -- DNRC Application Deadline
June 1 -- CDBG Public Facilities Application Deadline
June 15 -- TSEP Application Deadline

Further details on the interagency coordination process and how it can benefit local governments will be provided at the application workshops to be held in March and April.

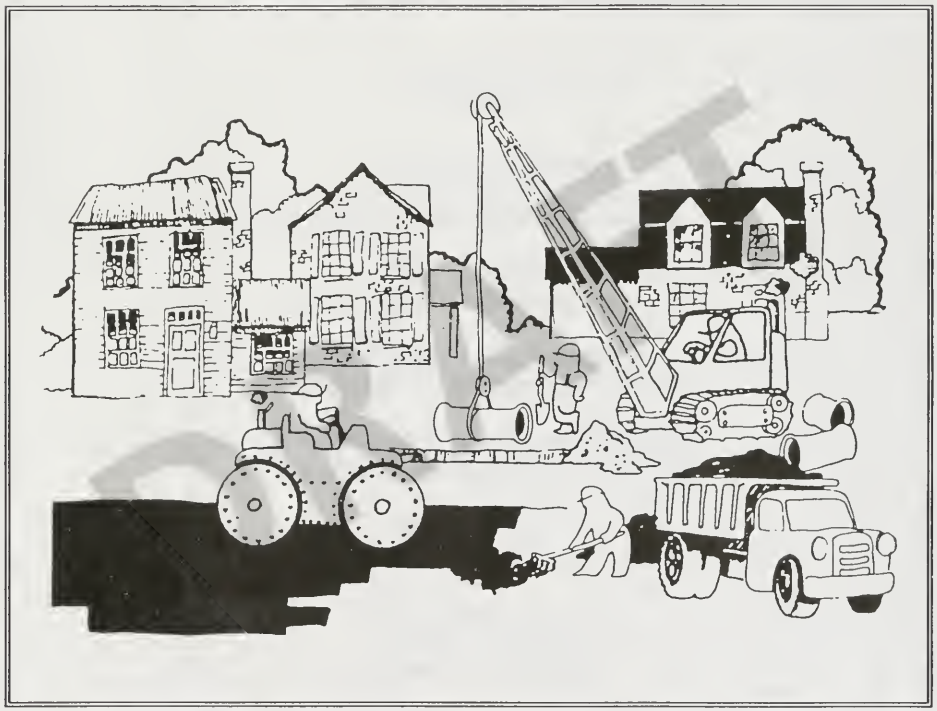
Further information

For detailed information on any of these topics contact the DOC TSEP staff at 444-3757.

(h/tsepcov/robb)

TREASURE STATE ENDOWMENT PROGRAM

1994-1995 APPLICATION GUIDELINES FOR PUBLIC FACILITIES PROJECTS



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MONTANA TREASURE STATE ENDOWMENT PROGRAM

APPLICATION GUIDELINES

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February, 1994

APPLICATION GUIDELINES FOR THE

MONTANA "TREASURE STATE ENDOWMENT" PROGRAM

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PREFACE

These Application Guidelines explain how cities, towns, counties, and special purpose districts may apply for financial assistance under the new Treasure State Endowment Program (TSEP) which was authorized by Montana voters with the passage of Legislative Referendum 110 on June 2, 1992.

In addition to providing information regarding the types of public facility projects and activities which are eligible for funding under TSEP, these guidelines set out the general policies for TSEP and the requirements for submitting TSEP applications. The application forms that local governments will need to apply for TSEP financial assistance are included in Appendix B.

If you have any questions regarding the Treasure State Endowment Program, contact:

Local Government Assistance Division
Montana Department of Commerce
1424 9th Avenue
Helena, MT 59620

Telephone: (406) 444-3757

THE TREASURE STATE ENDOWMENT PROGRAM

SUMMARY

1. The Treasure State Endowment Program is a new State-funded public facilities program designed to assist communities in financing drinking water systems, wastewater treatment facilities, sanitary or storm sewer systems, solid waste disposal and separation systems, and bridges.

2. Current estimates are that approximately $3 1/2 million in coal severance tax interest will be available for TSEP grants or debt service subsidies for fiscal years 1996 and 1997.

3. TSEP funding requests must be approved by the Legislature. Applications are accepted by the Department of Commerce (DOC) on a biennial cycle. The deadline for TSEP applications to be considered by the 1995 Legislature is June 15, 1994.

4. DOC is required to review TSEP project proposals and prepare a list of recommended projects, giving preference based on ten statutory priorities. DOC is also required to recommend the form of financial assistance for each project. Funding will be recommended on a competitive basis for local governments which demonstrate serious needs and limited financial capacity to meet those needs.

5. The amount of funding available for any loans under TSEP would be dependent upon a legislatively approved bond issue. The 1995 Legislature would have the option of adding loans authorized under TSEP to the list of loans approved under the Department of Natural Resources and Conservation (DNRC) Renewable Resource Program. The loans for these projects could be funded through a state bond issue backed by coal severance tax receipts. Given the existing commitments for outstanding bonds and currently authorized projects, a total of approximately $20,466,000 in bonding capacity would be available to the 1995 Legislature to authorize loans for additional projects through the DNRC Renewable Resource Program and TSEP. Loan terms and conditions would likely be comparable to those established for the DNRC Renewable Resource Development Program.

INTRODUCTION

The design of a new program for assisting local governments in financing public facilities must be founded on an understanding of the obstacles faced by Montana communities. In preparing these application guidelines for the Treasure State Endowment Program (TSEP), the Department of Commerce (DOC) has been guided by two studies of the difficulties faced by Montana communities in financing basic infrastructure facilities.

In October, 1990, DOC published a report entitled, Affordability of Major Wastewater Systems for Small Montana Communities. The report was funded by a grant from the U.S. Environmental Protection Agency (EPA) and was prepared by an independent consultant, Jim E. Richard. Although the report focused on financing issues relating to community sewage systems, the conclusions are equally applicable to and valid for most other public facilities. Among the report's conclusions:

- One-third of Montana's population lives in communities of less than 2,500 people. These small communities bear the heaviest financial burden per household in constructing adequate public facilities principally because they have fewer people than do larger communities to help pay for new construction or major improvements to existing systems.

- Small Montana communities generally have lower household incomes than larger communities.

- The principal reason that so many public facilities continue to be deficient is that most options for correcting deficiencies are not considered to be affordable by local residents.

- At the same time that communities with limited financial resources are facing costly improvements to meet federal and state environmental requirements, existing federal and state funding programs are falling further behind in meeting the existing demand for assistance to make local projects affordable.

- In addition to threatening public health and environmental quality, substandard public facilities in Montana's communities reduce our potential for economic and employment growth.

The DOC report's major recommendations were that:

1. The most important action that the state and federal government can take to address the problem of affordability is to provide additional grant funds for public improvements to small low-income communities.

2. In addition to increasing the total amount appropriated under the various grant programs, the grant ceilings on individual projects should be changed so that grant amounts can be provided in relationship to a community's ability to pay.

3. The various state and federal funding agencies should work together to offer small communities joint financing packages that bring the local share of project costs to a level that the residents can afford.

A second study, The Impact of Interest Rates on the Affordability of Water and Wastewater System Improvements in Small Montana Municipalities, was published in 1991 by the Local Government Policy Center at Montana State University. In his report, Dr. Richard L. Haines concluded that a significant number of smaller cities and towns would not be benefited by existing or proposed state programs that provide low interest loans for building or upgrading water or wastewater treatment systems "because these communities lack the financial capacity to service such relatively large amounts of debt whatever the rate of interest." The Haines report concluded:

> "The implication is that either drastic cost reduction measures should be devised, or a system of supplemental grants and other financial adjustments should be implemented if small Montana communities are to avoid further deterioration of their water/wastewater systems, consequent decline in community livability, and probable future construction cost and regulatory penalties. By themselves, low interest loans will be of little assistance."

There was a strong consensus among the local, state and federal officials, representatives of private sector bonding firms, and the other persons who commented on the initial draft of the TSEP guidelines during the fall of 1992 that applicants should participate in the funding of any public facility project in proportion to their financial resources.

In its background research to identify alternative methodologies for determining a reasonable level of local financial effort, DOC has reviewed the practices utilized by other state and federal infrastructure financing programs. These guidelines incorporate objective financial indicators for comparing local participation in TSEP-assisted projects, while retaining the flexibility to recognize extreme hardship situations in which a local government has minimal capacity to participate financially.

The need for an objective procedure for assessing local participation is vital if TSEP is to maintain long-term public confidence and avoid charges of favoritism or political influence in the awarding of TSEP funds.

APPLICATION GUIDELINES FOR THE

MONTANA "TREASURE STATE ENDOWMENT" PROGRAM

The Treasure State Endowment Program (TSEP) is a state-funded program designed to assist communities in financing public facilities projects. It was authorized by Montana voters with the passage of Legislative Referendum 110 on June 2, 1992. The law has been codified as Sections 90-6-701 through 90-6-710, MCA. (See Appendix A for a copy of the statute.)

I. PURPOSE

According to Section 90-6-702, MCA, the purpose of the Treasure State Endowment Program is to assist local governments in funding infrastructure projects that will:

(1) create jobs for Montana residents;

(2) promote economic growth in Montana by helping to finance the necessary infrastructure;

(3) encourage local public facility improvements;

(4) create a partnership between the state and local governments to make necessary public projects affordable;

(5) support long-term, stable economic growth in Montana;

(6) protect future generations from undue fiscal burdens caused by financing necessary public works;

(7) coordinate and improve infrastructure financing by federal, state, local government, and private sources; and

(8) enhance the quality of life and protect the health, safety, and welfare of Montana citizens.

II. AMOUNT OF TSEP FUNDS AVAILABLE FOR FISCAL YEARS 1996 AND 1997

Introduction

TSEP's enabling statute created a separate subfund, the Treasure State Endowment Fund (the "Fund"), established within the Permanent Coal Trust (Trust) to generate ongoing funding for TSEP projects. As a subfund of the Trust, the Fund principal is afforded the same constitutional protection as is principal in the Trust. The Montana Constitution states "The principal of the trust shall forever remain inviolate unless appropriated by a vote of three-fourths of the members of each house of the legislature."

Under the provisions of the TSEP statute, on July 1, 1993, $10.0 million was transferred from the Trust to the Fund. In addition to the amount transferred from the Trust, the Fund will receive 50 percent of the coal severance taxes constitutionally earmarked for the Trust during the next 20 years. It is estimated that by fiscal year 2014, principal in the Fund will reach $190.0 million. Revenues for TSEP grants and loans will be generated by interest earnings on the principal of the Fund and by loan repayments made by local government loan recipients.

1993 TSEP Awards

Local governments seeking financial assistance from TSEP submit applications to the Department of Commerce (DOC), which reviews and prioritizes individual projects, and submits its recommendations to the Governor and the Legislature. The Legislature reviews the projects and appropriates funding for the projects it approves. The 1993 Legislature enacted House Bill 663, which appropriated $4.1 million of the Fund's interest earnings for 24 infrastructure projects. Twenty construction projects are eligible for grants, while four projects are eligible for loans to finance the preparation of engineering plans. The four loans must be repaid in full when the projects move to the construction phase or within five years, whichever occurs first.

The $4.1 million for TSEP Projects approved by the 1993 Legislature significantly exceeds the level of interest earnings the Fund will generate during the 1995 biennium (fiscal years 1994 and 1995). DOC estimates that the Fund will earn $2.0 million during the period, which is less than one-half the amount necessary to fund the grants and engineering loans approved by the 1993 Legislature.

In addition, the timing of the Fund interest earnings deposits may not coincide with the need to fund construction projects at the most opportune time, i.e., when the projects' other funding sources become available or during the early part of the

construction season.

Board of Investment Loan

In anticipation of the funding shortfall described above, the Legislature authorized the TSEP to borrow funds from the Montana Board of Investments (Board). Senate Bill 316, enacted by the 1993 Legislature, authorizes the Board, at its discretion, to make a loan to the TSEP from non-pension funds. The law states, "The Treasure State Endowment Program may borrow from the Board of Investments to provide additional financial assistance for local government infrastructure projects under this part...."

In October, 1993, the Board approved a loan from the Trust of up to $4,134,458 to the TSEP concluding that:

1) the Legislature has authorized the Board at its discretion to make the loan and has authorized the entire amount of loan proceeds to be used for funding TSEP grants;

2) the loan is secured by the Fund's interest income, which is more than adequate to repay the loan (see Appendix B);

3) the loan proceeds will be used to finance worthwhile infrastructure projects in local jurisdictions - a concept approved by Montana voters; and

4) the availability of loan proceeds for grants will "leverage" other funding sources - DOC estimates that if all authorized projects are completed, approximately $38.0 million will be spent.

Further, the Board determined that:

> the use of Trust funds for the loan is in conformance with state law (Section 17-6-304, MCA), which states "Objectives for investment of the permanent coal tax trust fund are to diversify, strengthen and stabilize the Montana economy and to increase Montana employment and business opportunities while maintaining and improving a clean and healthful environment." The funding of infrastructure construction projects with the loan proceeds will provide construction jobs, while at the same time promoting a "clean and healthful environment" in the local jurisdictions receiving the grants.

Without the Board of Investments loan, the TSEP would have been able to fund only 6 of the 24 local projects approved by the Legislature. (See Appendix C for a summary of the 24 TSEP projects.)

The Board "customized" the loan to meet the requirements of the TSEP and to ensure that interest earning remaining in the Fund after debt service payments are adequate to permit TSEP funding of approximately $4.0 million per biennium in the 1997 and 1999 biennia. This "customizing" is achieved by: 1) requiring interest only payments until December 31, 1995 [the first four payments]; 2) amortizing 43 percent of the principal over the next eight payments; and 3) amortizing 57 percent of the remaining principal over the next three payments. The interest rate was set at 5.85 percent.

As a result of the $4.1 million Board of Investments loan to "jump start" TSEP, DOC projects that approximately the following amounts will be available for the program:

1996-1997 biennium	$3,981,000*
1998-1999 biennium	4,261,887*
2000-2001 biennium	5,400,061*

(*Note: These amounts include both revenues for funding projects and funding DOC administration)

Applicants for the 1994 funding competition (1995 Legislative Session) should realize that the Board of Investments "jump start" loan made in 1993 was a one time event. Therefore available TSEP funding for 1994 applications will be based on TSEP interest income and probably will not be sufficient to fund all applications.

Timing of TSEP Funding For Local Projects

Assuming that 1993 legislative policy for the award of TSEP funding is continued, grant funds would be disbursed to communities according to the ranked order of priority of the projects approved by the Legislature as interest income is earned incrementally on the Treasure State Endowment Fund. HB 663, which appropriated TSEP funding for the 24 projects approved by the 1993 Legislature, included the following direction:

> Funds must be awarded up to the amounts approved in this section in order of priority until available funds are expended. Funds not accepted or used by higher-ranked projects must be provided for projects in lower positions on the priority list that would not otherwise receive funding.

This means that lower ranked applicants whose projects have been approved for funding may have to wait for up to two years for their TSEP funds (3 years from the date of application). This is an important consideration for TSEP applicants to keep in mind as they plan the financing package and construction schedules for their public facility projects.

III. ELIGIBLE APPLICANTS

A. Any incorporated city or town, county, or consolidated government is eligible to apply for TSEP assistance. In addition, as the result of an amendment approved by the 1993 Legislature, county or multi-county water, sewer, or solid waste districts may also apply directly.

B. Non-public entities are not eligible for TSEP assistance. Under Article V of the Montana Constitution, the Legislature is prohibited from making any appropriation for:

> religious, charitable, industrial, educational, or benevolent purposes to any private individual, private association, or private corporation not under the control of the state.

C. Projects may be undertaken jointly by two or more eligible applicants in order to provide the most appropriate and cost-effective solution to an infrastructure problem. One of the applicants must be designated as the lead applicant and accept full responsibility for administrative and financial management during the term of the project. A draft of an interlocal agreement which establishes the lead applicant and other policies regarding the proposed joint project must be provided in the application.

D. Eligible special districts (county or multi-county water, sewer, and solid waste districts) may apply as an individual applicant or may apply under county sponsorship.

E. Eligible special districts (county or multi-county water, sewer, and solid waste districts) must be legally created before applications may be submitted by these applicants or by a county sponsoring a special district application.

F. In order to be awarded funding under the TSEP, applicants must have the management capacity to undertake and satisfactorily complete the project and assure proper management of TSEP funds. Under Montana law, TSEP recipients must have financial management systems which meet generally accepted accounting principles. If water , sewer, or solid waste districts do not believe they will be able to meet this legal requirement, they should consider requesting their county government to apply on their behalf.

G. In order to more fairly distribute scarce state funds, DOC proposes to limit applications to one per eligible applicant for the 1994 funding competition.

COMMENT: Many infrastructure programs limit the number of applications per funding cycle in order to more fairly distribute state or federal funds. For example, the Montana Community Development Block Grant Program (CDBG) limits applications for public facility grants to one application per applicant per funding competition.

IV. ELIGIBLE PROJECTS AND PROJECT DEVELOPMENT COSTS

A. ELIGIBLE PROJECTS

As set out in Section 90-6-701, MCA, infrastructure projects eligible for TSEP assistance include:

1. drinking water systems;
2. wastewater treatment;
3. sanitary sewer or storm sewer systems;
4. solid waste disposal and separation systems, including site acquisition, preparation, or monitoring; or
5. bridges.

B. ELIGIBLE PROJECT DEVELOPMENT COSTS

Project development costs that are eligible for TSEP funding include:

any reasonable costs directly related to planning, design, construction, erection, acquisition, site or other improvements, alteration, modernization, reconstruction, improvement, or expansion of infrastructure projects listed in A., above. Also eligible are related costs such as the cost of preparing engineering plans or studies for an approved TSEP project; legal and audit services; reasonable and appropriate administrative expenses; and interest expense and bond issuance costs attributable to a TSEP project.

C. INELIGIBLE COSTS

Costs that are ineligible for TSEP funding include:

1. direct financial assistance for religious, charitable, industrial, educational, or benevolent purposes to any private individual, private association, or private corporation not under the control of the state;

2. annual operation and maintenance;

3. purchase of non-permanent furnishings and fixtures or equipment that is not permanently installed in and solely dedicated to the operation of a public facility;

4. refinancing existing debt, except when required in conjunction with the financing of a new TSEP project;

COMMENT: The refinancing of existing debt for previously constructed public facilities could consume a substantial portion of available TSEP funding while providing no additional infrastructure construction or job creation. This provision will allow the refinancing of a previous bond or loan when done in conjunction with the construction of a new TSEP project.

V. APPLICATION SCORING SYSTEM AND RANKING CRITERIA

A. APPLICATION SCORING SYSTEM

The TSEP enabling statute requires DOC to recommend a list of projects for TSEP funding, giving preference according to the Legislature's order of priority for projects, and the form of financial assistance for each.

Each applicant will be required to submit a narrative as part of its application which describes the relationship of the proposed TSEP project to the legislative priorities for TSEP projects.

Each application will be assigned points based upon the extent to which the proposed project relates to each legislative criterion, in comparison to the other TSEP applications submitted, as follows:

BEST	Total Available Points
ABOVE AVERAGE	Three-Fourths Available Points
AVERAGE	One-Half Available Points
BELOW AVERAGE	One-Fourth Available Points
NOT APPLICABLE/ MINIMAL RELATIONSHIP	Zero Points

The total number of points assigned to each TSEP application will be based upon its cumulative response to the ten legislative priorities for TSEP.

B. ORDER OF PRIORITY FOR TSEP PROJECTS

A declining numerical score has been assigned to each succeeding criterion to reflect the Legislature's (statutory) order of priority for funding TSEP projects. The TSEP statutory criteria and the numerical score assigned to each by DOC are as follows, in order of priority:

1. projects that solve urgent and serious public health or safety problems;

   1000 POINTS

2. projects that enable local governments to meet state or federal health or safety standards;

   900 POINTS

3. projects that incorporate appropriate, cost-effective technical design and that provide thorough, long-term solutions to community public facility needs;

   800 POINTS

4. projects that result in a benefit to the public commensurate with the amount of financial assistance. However, the benefit to the public may not be measured by population alone;

   700 POINTS

5. projects that reflect greater need for financial assistance than other projects;

   600 POINTS

6. projects that enable local governments to obtain funds from sources other than TSEP;

   500 POINTS

7. projects that provide long-term, full-time job opportunities for Montanans;

   400 POINTS

8. projects that provide public facilities necessary for the expansion of a business that has a high potential for financial success;

   300 POINTS

9. projects that maintain or do not discourage expansion of the tax base; and

   200 POINTS

10. projects that are high local priorities and have strong community support.

100 POINTS

TOTAL MAXIMUM POSSIBLE POINTS = 5500 POINTS

NOTE: See Appendix F for a detailed explanation of how these ten criteria will be scored. Applicants should study Appendix F carefully before they prepare an application.

VI. TSEP FINANCIAL ASSISTANCE

A. GENERAL

The purpose of TSEP includes assisting local governments in funding infrastructure projects that will:

- create a partnership between the state and local governments to make necessary public improvements affordable;
- protect future generations from undue fiscal burdens caused by financing public works; and
- coordinate and improve infrastructure financing by federal, state, local government, and private sources.

TSEP is intended to complement existing financing options whenever possible, rather than to duplicate them. Because the resources under TSEP are limited in relation to the total need for local public facility improvements statewide, communities are encouraged to seek out private capital markets and existing state and federal public financing programs to provide the principal financing for infrastructure projects.

B. FORMS OF FINANCIAL ASSISTANCE

TSEP requires DOC to recommend a list of projects for TSEP funding, giving preference according to the Legislature's order of priority for projects, and the form of financial assistance for each. The Act provides for several types of financial assistance:

- matching grants for local infrastructure projects;
- annual debt service subsidies on local infrastructure projects;
- loans for local infrastructure projects from the proceeds of coal severance tax bonds at a subsidized interest rate; and
- loans for preliminary engineering studies.

(NOTE: Twenty of the 24 1993 applications awarded TSEP assistance received matching grants. Four applicants were awarded loans to prepare preliminary engineering studies.)

The amount and form of TSEP assistance recommended by DOC will be based on the applicant's financial need and the amount of TSEP funds that are available. Applicants for TSEP assistance must document that the proposed infrastructure project cannot reasonably be accomplished without TSEP assistance and that other private or public (i.e., local, state, or federal) resources are insufficient or unavailable to finance the proposed project at a reasonable cost. Applicants must also document that the level of local financial participation in the project is the maximum that can be reasonably expected. DOC will use several standard "financial indicators" to help prepare it's recommendation to the Legislature on the amount and form of financial assistance for each application. (See "Financial Indicators" and Appendix D).

The Department will recommend the form of financial assistance which is determined to be the most fiscally-sound and cost-effective means of making local user charges or assessments more reasonable and affordable.

C. FINANCIAL INDICATORS

The fifth statutory priority for TSEP projects gives preference to:

> "Projects that reflect greater need for financial assistance than other projects."

In order to score applications on this priority, DOC staff will prepare a financial assessment to help determine each applicant's relative need for TSEP assistance. The financial assessment will also serve as the basis for DOC's recommendations to the Legislature regarding the amount of financial assistance to be awarded each project.

During the original legislative discussion of TSEP, several legislators stated that communities should make maximum effort to pay for local public facility projects with their own resources before they ask the State to subsidize a local project. There was also a strong consensus among the local officials and legislators that participated in the fall, 1992 public hearings on the TSEP guidelines that communities should participate in the funding of any public facility project in proportion to their financial resources.

The major challenge is then to try to define a "reasonable local effort." During the Fall, 1992 hearings, local officials suggested several indicators that should be looked at in analyzing local financial capability. In response to these comments, these guidelines incorporate a variety of financial indicators which DOC will use for comparing local participation in TSEP-assisted public facility projects. None of the indicators viewed individually gives a clear picture of the applicant's need for TSEP assistance. However, when taken together, they do provide a reasonable and consistent basis for evaluating the overall financial capacity of each applicant.

For a description of the financial indicators that will be used see Appendix D, "Financial Indicators for Determining Appropriate Levels of TSEP Assistance."

D. MATCHING GRANTS

1. Ceilings on Grant Amounts

NOTE: Thirty-two communities submitted TSEP applications for consideration by the 1993 Legislature. These requests totalled $11,627,592 while only approximately $2 million in TSEP funds was initially available for local projects. DOC anticipates a similarly large number of requests to the 1995 Legislature relative to the amount of available TSEP funds. After subtracting the administrative budget for TSEP, DOC estimates that approximately $3 1/2 million will be available for TSEP projects during the 1995-1997 biennium.

Most infrastructure grant programs have established "ceilings" on the total amount of funds which will be provided for a single project. The establishment of a ceiling is generally seen as a tool to distribute scarce grant funds to a greater number of needy projects. The selection of the amount of the ceiling is a very difficult decision because it is desirable to balance the need to ration scarce public grant funds and the need to provide sufficient grant funds to make a single project financially feasible and affordable for local residents.

As a result, DOC is requesting public comment on the desirability of establishing a ceiling on the total amount of grant funds that may be requested and the total number of applications per applicant that may be submitted.

DOC is proposing a grant ceiling of a maximum of $500,000 per grant application, with the stipulation that the actual amount of grant funds recommended for award will be based on the minimum amount of grant funds necessary to make the project financially feasible and reasonably affordable for

local residents. DOC will conduct a financial analysis based on the financial indicators described in Appendix D to make a recommendation to the Legislature on the minimum amount of grant funds needed to make each project feasible and reasonably affordable. DOC anticipates that the majority of proposed projects will need amounts significantly less than the $500,000 ceiling. For example, the 1993 Legislature approved 20 TSEP construction grants totalling $3,966,458 or an average of $198,323 per grant.

COMMENT: The setting of a ceiling is a difficult balancing act. From a historical perspective, based on the first funding cycle (1993 Legislative Session) for the TSEP, the TSEP grant requests for construction projects varied from a high of $2,735,425 to a low of $25,000. Other state and federal infrastructure grant programs have widely varying policies on grant ceilings. The Farmers Home Administration Water and Wastewater Disposal Program has no ceiling and, thus, has the ability to award all its grant funds (over $3 million annually) for a single project or a few projects to make the project(s) feasible and affordable. The U.S. Economic Development Administration has no statutory ceiling on individual applications for public facilities projects, although, from a practical standpoint, the limit is about $1 million per project. The Montana Community Development Block Grant Program has a grant ceiling of $400,000 for public facility grants. The Department of Natural Resources and Conservation Renewable Resource Program has a grant ceiling of $100,000 for public projects. Given escalating costs to build public infrastructure and federal mandates which often increase the size and cost of the projects, coupled with the need to provide adequate grant funds per project to make a project financially feasible and reasonably affordable, DOC believes the proposed $500,000 ceiling is a reasonable compromise to balance competing demands on the TSEP.

2. Match Requirements -- Eligible and Ineligible Match

TSEP matching grants are intended to be used to make needed public facility projects more affordable for local residents by lowering projected user charges or tax assessments to reasonable levels. In order to be eligible for a TSEP matching grant, applicants must provide local matching funds to assist in the financing of total project costs.

Recommendations for the amounts of grants will be based on a comparison of the average costs which are borne by residents of comparable communities, served by existing, similar public facilities and the projected costs for the proposed project, with and without TSEP grant assistance. TSEP will endeavor

to award the minimum amount of TSEP grant assistance necessary to complete a project and achieve a reasonable and more affordable annual cost for affected citizens.

a. Eligible Local Matching Funds

"Local matching funds" are public or private funds (cash or loans) to be provided by a TSEP applicant to directly support the costs of eligible project activities. Eligible match includes:

- unexpended general funds or other cash;
- proceeds from the sale of general obligation, revenue, special assessment or other bonds;
- entitlement or formula-based federal funds such as federal highway funds or payments in lieu of taxes;
- loan or grant funds from a state or federal program (including TSEP loans); and
- local general funds or other cash which are available to finance eligible project development costs proposed as part of a TSEP project.

b. Ineligible Match

The provision of land, materials or in-kind services, such as donated labor, while encouraged in order to reduce the cost of financing local public facility projects, are ineligible for consideration as local match.

COMMENT: Most state infrastructure programs do not accept in-kind services or materials as match because of the difficulty of accurately and fairly assigning a monetary value to them.

3. Match Requirements - Amount of Match (Affordability and Hardship Grants)

The decision to recommend matching grant assistance for projects will be based on each application's ranked order according to the legislative

order of priorities and a comparison of the financial indicators described in Section C., above.

a. Affordability Grants

TSEP grants may be used to assist the most financially needy communities to reduce projected user charges or assessments for eligible TSEP projects to more affordable levels. Applicants may be eligible to receive a TSEP Matching Grant of up to 50 percent of the eligible project development costs where indicators of financial capacity clearly indicate that higher local financial participation is not feasible or appropriate and grant assistance is necessary in order to bring residential fees or assessments into conformance with costs for similar public facility systems in comparable communities.

b. Hardship Grants

In cases of extreme financial hardship and where the public's health or safety is affected, an applicant may be eligible to receive a Hardship Grant of from 51 percent up to 75 percent of the eligible project development costs in order to help reduce user costs to a more affordable level. Applicants may be eligible to receive a TSEP Hardship Grant where:

(1) a serious deficiency exists in a basic or necessary community facility or service or the community lacks the facility or service entirely and adverse consequences clearly attributable to the deficiency, such as serious illness, disease outbreak, substantial property loss, or serious environmental pollution have occurred, or are likely to occur; and

(2) indicators of financial capacity clearly indicate that higher local financial participation is not feasible or appropriate and additional grant assistance is necessary in order to bring residential fees or assessments into conformance with costs for similar public facility systems in comparable communities.

4. Limitation Per Household For TSEP Grants

The amount of TSEP grant funds requested per benefited household (per active residential connection in the case of sewer or water projects) for the project area must be reasonable in relation to those requested by other applicants. In no case should the grant request exceed $5,000 per household unless both of the applicable tests below are met:

a. a serious deficiency exists in a basic or necessary community facility or service or the community lacks the facility or service entirely and adverse consequences clearly attributable to the deficiency, such as serious illness, disease outbreak, substantial property loss, or serious environmental pollution have occurred, or are likely to occur; and

b. indicators of financial capacity clearly indicate that higher local financial participation is not feasible or appropriate and additional grant assistance is necessary in order to bring residential fees or assessments into conformance with costs for similar public facility systems in comparable communities.

An applicant for a TSEP grant in excess of $5,000 per household to be benefited by the project must be able to clearly demonstrate that without additional grant assistance the financial burden on local residents would be extraordinary.

E. ANNUAL DEBT SERVICE SUBSIDIES -- CEILINGS ON AMOUNTS

As an alternative to an up-front, one-time matching grant, TSEP financial assistance may be provided as a long-term debt service subsidy. An annual debt service subsidy would provide TSEP funds to pay a fixed percentage of the community's annual debt service payment on a bond or loan over the life of the loan or bonding period. In effect, a debt service subsidy would be a grant made on an installment basis for a fixed period of time.

The Department will recommend on-going annual debt service subsidies in cases where this approach is determined to be the most fiscally-sound and cost-effective means of reducing local user charges or assessments to

reasonable and affordable levels.

The total amount of the long-term debt service subsidy recommended will be limited to an amount sufficient to reduce per household costs to an amount which conforms to costs for similar public facility systems in comparable communities, not to exceed 50% of annual debt service.

As with matching grants, DOC is proposing a ceiling of a maximum of $500,000 per application for debt service subsidies, with the stipulation that the actual amount of subsidies to be recommended for award will be based on the minimum amount of subsidy funds necessary to make the project financially feasible and reasonably affordable for local residents. DOC will conduct a financial analysis based on the standard financial indicators in Appendix D to make a recommendation to the Legislature on the minimum amount of subsidy funds needed to make each project feasible and reasonably affordable. DOC anticipates that the majority of the proposed projects will need amounts significantly less than the $500,000 ceilings on subsidies.

COMMENT: The provision of annual debt service subsidies is a new concept for assisting local governments in financing public facilities that has not been tested in Montana. In contrast to one-time grants to local governments to reduce the total amount of funds that would need to be financed, an annual debt service subsidy would represent a commitment by the State to provide an annual grant over a fixed period of years to reduce the debt service charged to households served by the facility.

F. LOANS AT A SUBSIDIZED INTEREST RATE

NOTE: The amount of funding available for loans under TSEP would be dependent upon a legislatively approved bond issue. The 1995 Legislature would have the option of adding loans authorized under TSEP to the list of loans approved under the Water Development Program administered by the Montana Department of Natural Resources and Conservation (DNRC). The loans for these projects could be funded through a state bond issue backed by coal severance tax receipts. Given the existing commitments for outstanding bonds and currently authorized projects, a total of approximately $20,466,000 in bonding capacity would be available to the 1995 Legislature to authorize loans for additional projects through the DNRC Renewable Resource Program and TSEP.

A direct TSEP loan will be considered if an applicant clearly demonstrates that it is unable to finance the proposed project at a reasonable cost through conventional, private credit, or with the assistance of other state or federal infrastructure financing programs.

Direct loans may, when necessary, be used in conjunction with a TSEP grant. The Department will recommend a loan at a subsidized interest rate in cases where this approach is determined to be the most fiscally-sound and cost-effective means of reducing local user charges or assessments to reasonable and affordable levels.

Before considering a TSEP construction loan, local officials or staff should first contact the Department of Natural Resources Renewable Resource Development Program, the Montana Department of Health and Environmental Sciences State Revolving Fund, the U.S. Farmers Home Administration, or private bond underwriting companies. These state and federal agencies and private firms have public facility construction loan and/or bond programs and offer competitive interest rates.

1. Interest Rate Subsidies for TSEP Loans

TSEP loans will be funded through the sale of bonds secured with coal severance tax funds. Interest rates will depend upon the rate at which state bonds are sold.

Interest rate subsidies will be recommended as follows:

a. if the projected per household annual residential user rate (debt service portion only) is greater than 4% of the applicant's median household income, a 3% interest rate subsidy for five years will be recommended;

b. if the projected per household annual residential user rate (debt service portion only) is at least 2%, but less than 4% of the applicant's median household income, a 2% interest rate subsidy for five years will be recommended;

c. if the projected per household annual residential user rate (debt service portion only) is at least 1%, but less than 2% of the applicant's median household income, a 1% interest rate subsidy for five years will be recommended; or

d. if the projected per household annual residential user rate (debt service portion only) is less than 1% of the applicant's median household income, no interest rate subsidy will be recommended.

COMMENT: The policies proposed above for determining the amount of recommended interest rate subsidies are identical to those already established for loans through the Renewable Resource Grant and Loan Program administered by the Montana Department of Natural Resources and Conservation (DNRC). In 1985, the Legislature requested that DNRC develop a methodology for giving differential interest rates to the projects recommended for water development loans. The method adopted by the 1987 Legislature, described above, considers the user rate as a percentage of the median household income for the community as the basis for setting the interest rate subsidy for direct State loans. DOC will recommend interest rate subsidies on the same basis as DNRC in order to achieve consistency with previously established legislative policy.

2. TSEP Loan Repayment Terms

The repayment period for TSEP loans will generally be 20 years and may not exceed 30 years, however, the loan term will not exceed the anticipated useful life of the financed public facility. Terms longer than 20 years will be authorized only in cases where special financial hardship is clearly documented and where a longer term is determined to be necessary to achieve an affordable annual cost for affected local citizens.

TSEP loans will generally be repaid in semi-annual payments and may be made no less frequently than annually. Loans may be repaid at more frequent intervals at the request of the borrower.

3. Loan Security

The decision to make a TSEP loan will be based on whether the applicant's taxes, assessments, revenues, fees, or other sources of revenue will be sufficient to cover debt service and to provide adequate revenues for operation and maintenance of the assisted facility.

G. LOANS FOR PRELIMINARY ENGINEERING STUDIES

The 1993 Legislature authorized TSEP to "make deferred loans to local governments for preliminary engineering study costs." Applicants may apply for a TSEP loan to fund preliminary engineering studies.

Repayment of loans for planning and preliminary engineering will be calculated on the basis of 5% interest per year. Loans must be repaid in full when construction financing is committed and released for a public facilities project or within five years of the signing of the loan agreement, whichever is first. According to the law, "the applicant shall repay the loans whether or not the applicant succeeds in obtaining financing for the full project." Failure to repay a loan will disqualify the loan recipient as an applicant for future TSEP assistance.

NOTE: Local governments seeking TSEP financial assistance for preliminary engineering studies should contact DOC to request separate application forms for this purpose. Applicants representing water, sewer, or solid waste districts must have legally created the district prior to submittal of an application.

H. ECONOMIC DEVELOPMENT PROJECTS

1. Eligible Economic Development Projects

Under TSEP, eligible economic development projects include sewer, water, solid waste, storm drainage, or bridge "projects that provide long-term, full-time job opportunities for Montanans" and "projects that provide public facilities necessary for the expansion of a business that has a high potential for financial success."

Local government public facilities projects designed to support economic development and the creation of permanent jobs are eligible for TSEP funding, with the following exceptions:

a. any project that would place an existing Montana enterprise at a significant competitive disadvantage;

b. any project that would result in the relocation of an enterprise from one Montana community to another, unless the proposal is approved in advance by the local government that will lose the business;

c. any project that is speculative in nature, without a firm commitment from a specific business (e.g., construction of an industrial park without firm commitments from identified businesses which have agreed to locate in the park); or

d. any project which would require more than $5,000 in TSEP grant assistance for each permanent (year-around), full time equivalent job to be created by the project.

COMMENT: These are standard requirements for economic development projects in most state CDBG programs and in state programs which finance infrastructure needed for specific economic development projects. Similar requirements are already incorporated in Montana's CDBG Program.

2. Form of TSEP Financial Assistance

Local government infrastructure projects designed to support economic development and the creation of permanent jobs are eligible for all forms of TSEP funding: matching grants, annual debt service subsidies, and loans at a subsidized interest rate. The applicant must demonstrate that the proposed form and amount of financial assistance for public facilities which is proposed are appropriate and that other funds, including private funds from the business, are insufficient to complete the project without TSEP assistance.

The applicant local government should determine the minimum amount of TSEP financial assistance necessary to stimulate the private investment, based on the quantified financial gap, and ensure that the business is not unduly enriched compared to the public benefits expected to occur as a result of the project.

Applications may be either restructured or not recommended for funding if the financial viability of the proposal is questionable or where the overall business plan or need for TSEP assistance is inadequately documented.

3. Financial Information Requirements for Economic Development Projects

For an infrastructure project proposed by a local government in support

of economic development activities the applicant must:

a. submit a business plan and financial exhibits for each business to be assisted, as set out in the most recent edition of the Montana Community Development Block Grant (CDBG) Program Application Guidelines for Economic Development Projects;

b. document that each business that will benefit from the project has made a firm financial commitment to the project. Such commitments should be binding, contingent only upon the receipt of TSEP funding;

c. demonstrate that a funding gap exists and that alternative sources of public and private financing are unavailable or inadequate;

d. demonstrate that the project will directly result in the creation of new, permanent jobs within a two year period; and

e. demonstrate that the project is not financially feasible without TSEP assistance but, with TSEP assistance, is a sound, well-reasoned project with a high potential for financial success.

VII. GENERAL APPLICATION REQUIREMENTS FOR TSEP CONSTRUCTION PROJECTS

A. APPLICATION DEADLINE

Applications for TSEP assistance must be submitted to DOC by June 15th of the year preceding the Legislative session which will consider the project for funding. Applications must be delivered or postmarked on or before the deadline date.

B. APPLICATION CONTENTS AND FORMAT

Applicants must submit TSEP application information on TSEP forms and follow the format prescribed by DOC. See Appendix E for copies of TSEP application forms and instructions.

C. PROJECT SUMMARY

Each applicant for TSEP funding must provide a concise summary of its proposed project, not to exceed 300 words. The summary will serve as the basis for DOC's TSEP report to the Legislature and should, therefore, present a clear and accurate description of the need for, and merits of, the proposed project. DOC staff may edit summaries to achieve clarity and consistency in format.

D. PRELIMINARY ENGINEERING REPORT

The applicant must provide a copy of a preliminary engineering report, which includes a description of the improvements necessary to correct the identified deficiencies in the public facility. This plan or study must be sufficiently detailed to describe the scope of the problem to be addressed as well as the components and estimated costs of the proposed improvements or facility. If the applicant is proposing to improve an existing facility, it must include a brief history of the system or facility and an analysis of the system's or facility's present condition and deficiencies.

The preliminary plan or study must also describe the technical alternatives considered to deal with the identified problem; the design criteria used; the cost projections for each alternative, including an analysis of capital and operating costs; and the rationale for the selection of the proposed alternative.

Preliminary Engineering Reports for Water and Sewer Projects must, at a minimum, address the following:

1. Problem Definition

    a. Describe need
    b. Regulatory issues
    c. Historical record of problems

2. Alternative Analysis

    a. Description of alternatives considered for problem resolution
    b. Cost-effective analysis considering capital and operating costs (present worth or similar method)
    c. Basis of selection, considering financial and environmental impacts.

3. Installation of Water Meters (For drinking water projects only)

    a. Description of feasibility of installing water meters where appropriate,

    b. Cost savings due to the installation of meters vs. expense of installation and maintenance of meters,

    c. Recommendation on whether or not to install meters.

4. Description and Justification of Selected Alternative

    a. Descriptive narrative with drawings or schematics

    b. Site location and characteristics

    c. Design Criteria
    -Hydraulic data
    -Population projections

    d. Impact on existing facilities

    e. Operational requirements

f. Cost summary
-Capital and operating
-Cost per user

Water Meters

COMMENT (WATER METERS POLICY): In 1993 members of the Long Range Planning Subcommittee of the Montana Legislature suggested that DOC analyze the development of a policy on water meter installation. DOC has conducted research on this issue. In response to this suggestion, DOC is proposing a new policy on water meters. It is the policy of the TSEP to encourage the use of water meters wherever appropriate. Because all TSEP recipients receive limited state financial resources, recipients are expected to spend project construction funds and subsequent maintenance revenues as prudently as possible. In many cases the installation of water meters, instituting a fair billing system based on actual use, and subsequent maintenance of meters is one of the most prudent and cost effective management and conservation steps local governments can take. Generally, the installation of meters reduces long-term operational costs for a water system.

All local governments requesting TSEP funds for water system improvements must include in the application an analysis of the feasibility of the installation of water meters and conversion to a billing system based upon meters and actual use in all those cases where meters are not currently being utilized. The analysis should include projections of the potential water conservation savings due to meter conversion as well as estimated installation and long-term maintenance and operations costs. Though local governments are not required to convert to a metering system as a precondition of receiving TSEP funds, local governments choosing not to convert to meters are expected to present a sound rationale why conversion is not feasible or appropriate.

In reviewing and ranking applications DOC will consider whether the conversion to a water metering system has been thoroughly analyzed and the applicant has proposed to install meters. For those cases where meters are not proposed, the analysis in the preliminary engineering study must clearly demonstrate that the use of meters is not feasible or appropriate.

E. RESPONSE TO STATUTORY PRIORITIES FOR TSEP PROJECTS

Each applicant must submit a narrative as part of its application which describes the relationship of the proposed TSEP project to each of the ten priorities for TSEP projects listed in Part V., APPLICATION SCORING SYSTEM

AND RANKING CRITERIA.

Each application will be assigned points based upon the extent to which the proposed project relates to each statutory criterion, in comparison to the other TSEP applications submitted. The total number of points assigned each application will be based upon its cumulative response to the ten priorities for TSEP projects set out by the Legislature.

In order to avoid unnecessary duplication, the applicant should reference other pertinent portions of its application or exhibits in describing its response to the priorities.

Appendix F, "Application Scoring System and Ranking Criteria", includes a listing of the ten statutory priorities, along with the major issues which will be considered by DOC in evaluating each applicant's response. A review of this appendix will be helpful to TSEP applicants in preparing their responses to each priority.

F. BUDGET FORM AND NARRATIVE

The DOC Budget Form for TSEP Projects (Appendix E) must be accompanied by a narrative justification for the specific proposed project activities, including a breakdown of all major project costs that identifies sources and amounts of all non-TSEP funds to be used. The narrative must explain the basis for the cost estimates for each line item in the proposed budget.

G. PROJECT FUNDING STRATEGY

Applicants must request a specific amount and form of TSEP financial assistance: either a matching grant, loan with subsidized interest rate, preliminary engineering loan, or debt service subsidies. Applicants should request only the minimum amount of TSEP funding necessary, an amount that will be sufficient, in combination with funds from other sources, to complete the proposed project.

The form and amount of TSEP assistance ultimately recommended to the Legislature may differ from that originally requested by the applicant based on the review of the application by DOC. DOC will not recommend TSEP funding for projects which it determines to be financially infeasible or not cost-effective.

Applicants must prepare a funding strategy which lists and describes the

amount and form of TSEP assistance requested and the applicants' efforts to secure alternative or additional funds from appropriate public and private sources to assist in financing the proposed project. The directions for preparing the funding strategy are found in Appendix E, "Montana Public Facilities Financial Information Form" (Part 2). Note that applicants are required to complete all parts of this form. The form also requires the applicant to provide basic information about the applicant's financial situation.

H. PUBLIC OR PRIVATE SECTOR COMMITMENTS

If non-TSEP public or private sector resources will be involved in a proposed TSEP project, the applicant should provide evidence of the commitment of these resources. These commitments may be contingent upon the award of TSEP funding for the project.

In documenting a public sector commitment, the funding agency should verify the applicant's eligibility for the funds and describe the likelihood of receiving funding. Where funds will be provided by a local government, the commitment should be documented by a formal resolution by the governing body which specifies the approximate amount of the commitment.

In documenting a private sector commitment, such as an applicant's proposal to issue municipal revenue bonds, the applicant should provide a letter from a bond underwriter describing the applicant's eligibility to use the proposed financial instrument and the reasonable expectation of receiving funding through this means.

No TSEP funds will be released for approved projects until firm commitments have been provided for all non-TSEP resources to be involved in the project.

I. CITIZEN PARTICIPATION

The tenth legislative priority includes: "projects that are high local priorities and have strong community support."

In its narrative response to this priority, each applicant should describe its efforts to assure citizen participation in the selection of the proposed project and local awareness of and support for the proposal.

Applicants must certify that they have held at least one advertised public hearing in the area of the project to inform local citizens and affected property

owners regarding the key components and costs of the proposed project and the amounts of any anticipated increases in user charges or assessments that will result from the proposed project, including the estimated cost per household. This certification may be incorporated in the "Resolution to Authorize the TSEP Application" which is discussed in section J, below.

Applicants must provide documentation of their efforts to obtain citizen participation, such as a summary of public hearing comments or copies of newspaper articles, to demonstrate that local residents are in support of the proposed project. Copies of public opinion surveys, newspaper articles, or letters of support may also be submitted.

J. RESOLUTION TO AUTHORIZE TSEP APPLICATION

Each application for TSEP funds must be accompanied by a copy of a resolution formally adopted by the applicant and authorizing:

- the submission of the TSEP application, and
- the applicant's chief elected official or chief executive officer to act on its behalf in regard to the application and to provide such additional information as may be required.

Applicants must have the legal jurisdiction and authority to finance, operate and maintain the proposed facility and, where applicable, must have the demonstrated financial capacity to repay any debt incurred. In all cases, the applicant assumes complete responsibility for proper financial management of the TSEP funds awarded to it and compliance with all applicable State laws and regulations. Pursuant to Section 2-7-504, MCA, all TSEP recipients must be able to demonstrate that their financial management systems meet generally accepted accounting principles before DOC will disburse TSEP funds for a local project.

K. IMPLEMENTATION SCHEDULE

As part of its application, each applicant must submit an implementation schedule which describes the overall schedule for project completion, including engineering and construction.

L. MAPS

Applicants for TSEP funding must include a clearly legible map showing the boundaries of the proposed project area and the locations of all proposed project activities, such as land to be acquired or public facilities to be constructed or improved.

M. ENVIRONMENTAL IMPACT

All TSEP projects are subject to the Montana Environmental Policy Act which seeks to avoid or mitigate adverse impacts on the environment by mandating careful consideration of the potential impacts of any development assisted with state funds or approved by a state agency. In addition, TSEP projects are subject to numerous other state environmental laws. To avoid problems which could delay or even prevent a project from being carried out, applicants are encouraged to be sensitive to potential environmental impacts when initially planning their TSEP projects.

Each applicant must submit a completed Environmental Checklist to assist in the review of the potential environmental impacts of the projects under consideration. Applicants must utilize the prescribed Environmental Checklist format contained in Appendix G.

N. COMPLIANCE WITH LOCAL, STATE, AND FEDERAL REQUIREMENTS

Each applicant must comply with all applicable federal and state laws and regulations in implementing its TSEP project.

A proposed project must be consistent with any adopted local capital improvements plan or any development plan previously prepared by a public agency having approval authority for the type of project proposed.

O. DOCUMENTATION

Each applicant should identify the source of supporting data for any statements made in the application. If local research was conducted to support the application, the survey methodology must be described and a copy of the survey form with a composite summary of all responses submitted with the application. All original documentation must be retained by the applicant.

VIII. APPLICATION REVIEW

A. Department of Commerce staff will review applications for technical and financial feasibility before the Director of the Department of Commerce prepares a list of recommended projects and form of financial assistance for each for the Governor.

B. DOC may supplement application materials, as needed, by consulting public or private agencies knowledgeable about proposed projects or particular community problems. DOC may provide for outside technical review of applications by other public or private agencies or professionals when deemed necessary to assure adequate review.

C. During the review, DOC staff may contact the applicant to review the application and to discuss any concerns or questions or to request additional information or documentation.

D. Site visits may be made to the proposed project area for the purposes of verifying or further evaluating information contained in the application.

E. The Department of Commerce will prepare and submit to the Governor a list containing the recommended projects and the recommended form of financial assistance for each.

F. The Governor will review the projects recommended by the Department and submit a list of recommended projects and form of financial assistance to the Legislature.

IX. TSEP ADMINISTRATION

A. TSEP CONTRACT

If the Legislature approves a TSEP project, the applicant will enter into a contract with DOC. The contract will include:

- the amount of TSEP funds and form of financial assistance to be provided;
- a detailed budget for the TSEP funds and any other funds to be involved in the project;
- the scope of work to be completed and the schedule for implementation of project activities; and,
- the general and special terms and conditions associated with the project.

The TSEP application, as approved, will become a part of the contract.

No funds will be released to TSEP recipients until the contract is fully executed between DOC and the recipient, the recipient has complied with all special terms and conditions established by DOC, and firm commitments have been provided for all non-TSEP resources to be involved in the project.

B. DISBURSEMENT OF TSEP FUNDS

TSEP funds will normally be disbursed as follows (subject to the availability of TSEP funds by DOC):

1. Grants, Construction Projects -- Grant funds will be disbursed as actual costs are incurred by the recipient.
2. Annual Debt Service Subsidies, Construction Projects -- Disbursement will be made on an annual schedule which will be coordinated with the amortization schedule for the underlying loan or bond agreement.
3. Loans, Construction Projects -- Disbursement will be made based on schedules negotiated by DOC and the loan recipient.

4. Loans, Preliminary Engineering Studies -- Disbursement will be made based on schedules negotiated by DOC and the loan recipient.

COMMENT: The procedure for disbursing grant funds is a standard requirement of federal and state programs. It assures that TSEP grant funds will stay in the state treasury to earn additional revenue until they are actually needed to fund local project activities.

C. COST SAVINGS

In the event that construction bids received for a TSEP project are less than the projected costs, DOC will establish a final project budget at the bid price, plus a ten percent contingency. DOC may, at its discretion, reduce the amount of TSEP funding to be provided in proportion to all other project funding sources. As an alternative, TSEP may authorize the construction of additional, directly-related project components to enhance the overall project, up to the originally approved project budget.

D. PROGRESS REPORTING

TSEP recipients will be required to submit quarterly narrative progress and financial reports and, upon project completion, a final report.

E. PROJECT MONITORING

Periodically DOC staff will make monitoring visits to assure that the funds are being used properly and that the projects are being administered in conformance with state law.

F. PUBLIC DISCLOSURE

With the exception of any plan or financial information relating to a private business, all records of TSEP will be available for public review with reasonable notice during regular office hours. Proprietary information regarding a private business will not, except as required by law, be provided to any third person, firm, corporation, or public entity without the express written consent of the business.

G. BIENNIAL REPORT TO LEGISLATURE

DOC will biennially solicit public comment on the rules adopted for TSEP, prior to inviting applications for TSEP funds. DOC will prepare a biennial report to the Legislature describing the applications considered for funding, the projects recommended for funding, and any recommendations for changes in the TSEP enabling statute which should be considered by the Legislature.

APPENDICES

APPENDIX A

TSEP ENABLING STATUTE

90-6-701. Treasure state endowment program created -- definitions. (1) (a) There is a treasure state endowment program that consists of:

(i) the treasure state endowment fund established in 17-5-703;

(ii) the infrastructure portion of the coal severance tax bond program provided for in 17-5-701(2).

(b) The treasure state endowment program may borrow from the board of investments to provide additional financial assistance for local government infrastructure projects under this part, Provided that no part of the loan may be made from retirement funds.

(2) Interest from the treasure state endowment fund and from proceeds of the sale of bonds under 17-5-701(2) may be used to provide financial assistance for local government infrastructure projects under this part and to repay loans from the board of investments.

(3) As used in this part, the following definitions apply:

(a) "Infrastructure projects" means:

(i) drinking water systems;

(ii) wastewater treatment;

(iii) sanitary sewer or storm sewer systems;

(iv) solid waste disposal and separation systems, including site acquisition, preparation, or monitoring; or

(v) bridges.

(b) "Local government" means an incorporated city or town, a county, a consolidated local government, or a county or multi-county water, sewer, or solid waste district.

(c) "Treasure state endowment fund" means the coal severance tax infrastructure endowment fund established in 17-5-703(1)(b).

(d) "Treasure state endowment program" means the local government infrastructure investment program established in subsection (1).

90-6-702. Purpose. The purpose of the treasure state endowment program is to assist local governments in funding infrastructure projects that will:

(1) create jobs for Montana residents;

(2) promote economic growth in Montana by helping to finance the necessary infrastructure;

(3) encourage local public facility improvements;

(4) create a partnership between the state and local governments to make necessary public projects affordable;

(5) support long-term, stable economic growth in Montana;

(6) protect future generations from undue fiscal burdens caused by financing necessary public works;

(7) coordinate and improve infrastructure financing by federal, state, local government, and private sources; and

(8) enhance the quality of life and protect the health, safety, and welfare of Montana citizens.

90-6-703. Types of financial assistance available. (1) The legislature shall provide for and make available to local governments the following types of financial assistance under this part:

(a) matching grants for local infrastructure projects;

(b) annual debt service subsidies on local infrastructure projects; and

(c) loans from the proceeds of coal severance tax bonds at a subsidized interest rate.

(2) The department of natural resources and conservation and the department of commerce:

(a) may adopt rules to commit to interest rate subsidies for local infrastructure projects and may allow the subsidies to be paid over the life of the loan or bonding period; and

(b) may make deferred loans to local governments for preliminary engineering study costs. The applicant shall repay the loans whether or not the applicant succeeds in obtaining financing for the full project. Repayment may be postponed until the overall construction financing is arranged.

90-6-704 through 90-6-709 reserved.

90-6-710. Priorities for projects -- procedure -- rulemaking. (1) The department of commerce must receive proposals for projects from local governments as defined in 90-6-701(3)(b). The department shall work with a local government in preparing cost estimates for a project. In reviewing project proposals, the department may consult with other state agencies with expertise pertinent to the proposal. The department shall prepare and submit a list containing the recommended projects and the recommended form of financial assistance for each project to the governor, prioritized pursuant to subsection (2). The governor shall review the projects recommended by the department and shall submit a list of recommended projects and the recommended financial assistance to the legislature.

(2) In preparing recommendations under subsection (1), preference must be given to projects based on the following order of priority:

(a) projects that solve urgent and serious public health or safety problems;

(b) projects that enable local governments to meet state or federal health or

safety standards;

(c) projects that incorporate appropriate, cost-effective technical design and that provide thorough, long-term solutions to community public facility needs;

(d) projects that result in a benefit to the public commensurate with the amount of financial assistance. However, the benefit to the public may not be measured by population alone.

(e) projects that reflect greater need for financial assistance than other projects;

(f) projects that enable local governments to obtain funds from sources other than the funds provided under this part;

(g) projects that provide long-term, full-time job opportunities for Montanans;

(h) projects that provide public facilities necessary for the expansion of a business that has a high potential for financial success;

(i) projects that maintain the tax base or that do not discourage expansion of the tax base; and

(j) projects that are high local priorities and have strong community support.

(3) After the review required by subsection (1), the projects must be approved by the legislature.

(4) The department shall adopt rules necessary to implement the treasure state endowment program.

APPENDIX B
TSEP INTEREST INCOME CHART

MECHANICS OF COAL TAX REVENUE DEPOSITS FOR LOCAL INFRASTRUCTURE ASSISTANCE

TREASURE STATE ENDOWMENT PROGRAM (TSEP)

			Annual Coal Tax Revenue		
			$38,947,368.00		
			($19,473,684.00)	earmarked programs	
			$19,473,684.00	Balance	
		Coal Sev Tax Bonds	($500,000.00)		
		4 years Clean Coal	($5,000,000.00)		
			$13,973,684.00		
Operating Year		Annual Deposits to Perm Fund Principal	Annual Deposits to TSEP Fund Principal	Cumulative TSEP Principal	Est. Annual Interest Available for Distrib.
		($10,000,000)	$10,000,000		
1	FY '94	$6,986,842	$6,986,842	$16,986,842	$780,952
2	FY '95	$6,986,842	$6,986,842	$23,973,684	$1,219,481
3	FY '96	$7,000,000	$7,000,000	$30,973,684	$1,596,119
4	FY '97	$7,000,000	$7,000,000	$37,973,684	$2,016,119
5	FY '98	$9,500,000	$9,500,000	$47,473,684	$2,529,869
6	FY '99	$9,500,000	$9,500,000	$56,973,684	$3,099,869
7	FY '00	$9,500,000	$9,500,000	$66,473,684	$3,669,869
8	FY '01	$9,500,000	$9,500,000	$75,973,684	$4,239,869
9	FY '02	$9,500,000	$9,500,000	$85,473,684	$4,809,869
10	FY '03	$9,500,000	$9,500,000	$94,973,684	$5,379,869
11	FY '04	$9,500,000	$9,500,000	$104,473,684	$5,949,869
12	FY '05	$9,500,000	$9,500,000	$113,973,684	$6,519,869
13	FY '06	$9,500,000	$9,500,000	$123,473,684	$7,089,869
14	FY '07	$9,500,000	$9,500,000	$132,973,684	$7,659,869
15	FY '08	$9,500,000	$9,500,000	$142,473,684	$8,229,869
16	FY '09	$9,500,000	$9,500,000	$151,973,684	$8,799,869
17	FY '10	$9,500,000	$9,500,000	$161,473,684	$9,369,869
18	FY '11	$9,500,000	$9,500,000	$170,973,684	$9,939,869
19	FY '12	$9,500,000	$9,500,000	$180,473,684	$10,509,869
20	FY '13	$9,500,000	$9,500,000	$189,973,684	$11,079,869
21	FY '14	$19,000,000	$0	$189,973,684	$11,079,869

Years '94 & '95 projected at 6.41% interest earning rate
Years '96 & on projected at 6%interest earning rate

Prepared by Melanie Strandberg
Dept of Commerce/Mgmt Services Div
9-24-93

APPENDIX C

PROJECT PRIORITY SCORES AND APPROVED FUNDING

FOR THE 1993 TREASURE STATE ENDOWMENT PROGRAM

APPLICANT	PRIORITY SCORE	AMOUNT REQUESTED	AMOUNT APPROVED
1. BUTTE-SILVER BOW (WATER)	4075	$ 300,000	$ 300,000
2. ANACONDA/DEER LODGE (WATER)	3900	$ 350,000	$ 350,000
3. CARBON CO. (BRIDGE)	3325	$ 25,000	$ 25,000
4. NEIHART (WATER)	3275	$ 616,213	$ 544,673
5. MISSOULA CO./SUNSET WEST (WATER)	3100	$ 154,107	$ 154,107
6. YELLOWSTONE CO. (BRIDGE)	3075	$ 95,500	$ 95,500
7. CIRCLE (WATER)	3000	$ 370,000	$ 370,000
8. CIRCLE (ENG. LOAN)	3000	$ 20,000	$ 0
9. STILLWATER CO./REEDPOINT (SEWER)	3000	$ 250,000	$ 200,000
10. BEAVERHEAD CO. (SLD WASTE)	2900	$ 160,000	$ 160,000
11. RONAN (SEWER)	2825	$ 309,107	$ 100,000
12. SHELBY (SD/SEWER)	2825	$ 732,000	$ 366,000
13. WHEATLAND CO. (ENG. LOAN)	2775	$ 33,000	$ 33,000
14. HARLEM (WATER)	2750	$ 217,300	$ 217,300
15. YELLOWSTONE CO./HUNTLEY (WATER)	2600	$ 100,000	$ 100,000
16. RICHLAND CO. (SLD WASTE)	2500	$ 570,500	$ 285,000
17. WOLF POINT (SEWER)	2300	$ 50,000	$ 0
18. LEWISTOWN (STR. DRAIN)	2075	$ 60,000	$ 60,000
19. HELENA (WATER)	1925	$ 677,265	$ 338,633
20. LIVINGSTON (STR. DRAIN)	1775	$ 100,000	$ 100,000
21. TOOLE CO./SWEETGRASS (ENG. LOAN) (W)	1650	$ 366,040	$ 25,000
22. FROID (WATER)	1625	$ 117,000	$ 117,000
23. ENNIS (WATER)	1525	$ 400,000	$ 100,000
24. CHESTER (WATER)	1450	$ 196,235	$ 0
25. GALLATIN CO./RAE SUBDIV. (WATER)	1450	$ 49,870	$ 33,245
26. YELLOWSTONE CO./SHEPHARD (ENG LOAN)	1425	$ 100,000	$ 85,000
27. DUTTON (WATER)	1325	$ 68,780	$ 50,000
28. SANDERS CO./NOXON (BRIDGE)	1300	$ 2,156,000	$ 0
29. TOOLE CO./SWEETGRASS (ENG. LOAN) (S)	1250	$ 162,925	$ 25,000
30. CUSTER CO. (SLD WASTE)	1075	$ 18,900	$ 0
31. MADISON CO. (SLD WASTE)	900	$ 66,850	$ 0
32. SANDERS CO./HERON (BRIDGE)	900	$ 2,735,000	$ 0
	TOTAL	$ 11,627,592	$ 4,234,458

TREASURE STATE ENDOWMENT PROGRAM (TSEP) PROJECTS

RECOMMENDED FOR FUNDING THROUGH HB 663

ANACONDA-DEER LODGE (Water System)

TSEP Grant:	$ 350,000
Other Funds:	$3,700,000 Revenue Bonds
	$ 375,000 (Community Development Block Grant)
Total Project:	$4,425,000

Anaconda-Deer Lodge is under Public Service Commission mandate to improve its water system to comply with state and federal water quality standards. Community is under a Montana Department of Health and Environmental Sciences (DHES) boil order. Situation is considered an urgent and serious health problem by DHES.

BEAVERHEAD COUNTY (Solid Waste)

TSEP Grant:	$ 160,000
Other Funds:	$ 160,000 Beaverhead County
Total Project:	$ 320,000

Existing landfill is located directly above City of Dillon's water supply and Beaverhead River. Situation is considered a significant threat to public health by DHES. DHES and court has mandated that county close and reclaim existing site.

BUTTE-SILVER BOW (Butte Water System):

TSEP Grant:	$ 300,000
Other Funds:	$22,915,000 Revenue Bonds
Total Project:	$23,215,000

Butte-Silver Bow is under a state and federal court decree to improve its water system to comply with state and federal water quality standards. Situation is considered an urgent and serious health problem by DHES.

CARBON COUNTY (Sand Ford Bridge)

TSEP Grant:	$ 25,000
Other Funds:	$ 50,000 Carbon County Bridge Fund
	$ 45,100 US Forest Service Grant
Total Project:	$ 120,100

The Sand Ford Bridge provides access to the East Rosebud Canyon area south of Roscoe. Montana Department of Transportation (MDOT) considers the bridge an urgent and serious safety problem because it violates state bridge standards and is used by 200 vehicles per day during summer months.

CIRCLE (Water System)

TSEP Grant:	$ 370,000	
Other Funds:	$ 370,000	USDA Rural Development Administration grant/loan to be applied for.
Total Project:	$ 740,000	

Circle has received a noncompliance order from DHES because of health risks posed by excessive fluorides and sodium in water supply, in violation of federal and state water quality standards.

DUTTON (Water)

TSEP Grant:	$ 50,000	
Other Funds:	$ 50,000	DNRC Water Development Program grant
	$ 18,700	Town of Dutton
Total Project:	$ 118,700	

The project would improve Dutton's water storage and distribution system to provide adequate capacity for fire fighting.

ENNIS (Water System)

TSEP Grant:	$ 100,000	
Other Funds:	$ 660,000	Montana Dept. of Natural Resources (DNRC) Water Development Program Loan
	$ 400,000	CDBG awarded by Montana Dept. of Commerce (DOC) in January, 1994
Total Project:	$1,060,000	

The project would improve Ennis' water storage and distribution system to provide adequate capacity for fire fighting.

FROID (Water System)

TSEP Grant:	$ 117,000	
Other Funds:	$ 25,000	Town of Froid
	$ 317,130	USDA (RDA) Grant
	$ 117,470	USDA RDA (formerly Farmers Home Administration) Loan
Total Project:	$ 576,600	

Froid faces a critical water storage problem. A new storage tank will improve the water chlorination system and provide adequate water storage to meet standards for fire fighting.

GALLATIN COUNTY - RAE SUBDIVISION (Water)

TSEP Grant:	$ 33,245	
Other Funds:	$ 6,278	Rae Subdivision Water and Sewer District
	$ 7,757	King Arthur Park owner
	$ 19,211	Rae Subdivision residents
Total Project:	$ 66,491	

The project would install water meters for the Rae Subdivision water system in order to provide a more effective water rate structure and to encourage water conservation.

HARLEM (Water Storage)

TSEP Grant:	$ 217,300	
Other Funds:	$ 385,395	CDBG application to be submitted to DOC in June, 1994
	$ 217,300	EDA grant applied for
Total Project:	$ 434,600	

Town faces critical water storage problem. A new storage tank will improve the water chlorination system and provide adequate water storage to meet standards for fire fighting.

HELENA (Water Storage)

TSEP Grant:	$ 338,633	
Other Funds:	$ 1,015,898	City of Helena
Total Project:	$ 1,354,531	

TSEP funds would be used to help the City of Helena to upgrade the Upper Hale Water System. Existing deficiencies in water storage and main capacity create a serious fire protection problem. Current city water rates are already among the highest in the state.

LEWISTOWN (Storm Drainage)

TSEP Grant:	$ 60,000	
Other Funds:	$ 105,264	City of Lewistown
Total Project:	$ 165,264	

The project would install subsurface storm drainage facilities in a twelve block area of the city. Currently, poor drainage causes standing water which deteriorates streets, creates traffic hazards, and impacts neighboring residential and business properties.

LIVINGSTON (Storm Drainage)

TSEP Grant:	$ 100,000	
Other Funds:	$ 100,000	City of Livingston
Total Project:	$ 200,000	

The project will rehabilitate the deteriorated storm drainage system in a 27 block area on the east side of Livingston.

MISSOULA COUNTY- SUNSET WEST (Water)

TSEP Grant:	$ 154,107	
Other Funds:	$ 155,000	Sunset West Homeowners Association (rural special improvement district.)
Total Project:	$ 309,107	

Families in Sunset West subdivision have no water due to contamination and failure of existing wells. DHES has issued Administrative Compliance Order to the subdivision to provide an adequate water supply. Situation is considered critical.

NEIHART (Water System)

TSEP Grant:	$ 544,673	
Other Funds:	$150,000	DNRC Water Development Program loan
	$ 31,558	USDA RDA grant applied for
	(Town has also applied to U.S. Economic Development Administration (EDA) for grant assistance)	
Total Project:	$726,231	

Town is under state district court order to improve its water system to comply with state and federal water quality standards. Community has been under a DHES boil order since 1982. Situation is considered a very urgent and serious health problem by DHES. Without TSEP assistance, water rates would be $82 per month.

RICHLAND COUNTY (Solid Waste)

TSEP Grant:	$ 285,000	
Other Funds:	$ 300, 809	County tax assessments
	$ 269,691	County Solid Waste District funds
	$ 102,500	Richland County
Total Project:	$ 958,000	

The existing county landfill site is polluting groundwater and wells in the area. The project would close the existing landfill and purchase a site for and construct a new landfill in compliance with DHES standards.

RONAN (Sewer System)

TSEP Grant:	$ 100,000	
Other Funds:	$ 104,000	City funds
	$ 400,000	CDBG application submitted to DOC in September
	$ 220,000	Application submitted to DHES for loan from State Revolving Fund (SRF)
Total Project:	$ 618,215	

City's sewage collection and treatment system is in violation of federal and state water quality standards. Project would rehabilitate sewage system to meet standards.

SHELBY (Sewer System)

TSEP Grant:	$ 366,000	
Other Funds:	$ 4,300	City funds
	$ 200,000	CDBG awarded by DOC in January, 1994
	$ 244,000	Application submitted to DHES for loan from SRF
Total Project:	$ 980,300	

Deteriorating sewage lines have caused sewage to back up into numerous homes. DHES considers situation a public health hazard.

STILLWATER COUNTY- REEDPOINT (Sewer System)

TSEP Grant:	$ 200,000	
Other Funds:	$ 912,645	USDA RDA grant/loan pre-application approved
	$ 400,000	CDBG awarded by DOC in January, 1994
Total Project:	$1,312,645	

Community has no sewer system. Groundwater and wells are being contaminated by failing cesspools and septic tanks. Project would construct a community sewage collection and treatment system.

TOOLE COUNTY - SWEETGRASS (Engineering Loan) (Water)

TSEP Deferred Loan: $25,000

The unincorporated community of Sweetgrass has an inadequate water supply to meet demand. TSEP funds would provide a $25,000 deferred loan to prepare an engineering plan to solve the community's water system problems. Repayment would be due when the water project is constructed or within five years, whichever is first.

TOOLE COUNTY - SWEETGRASS (Engineering Loan) (Sewer)

TSEP Deferred Loan: $25,000

The unincorporated community of Sweetgrass has an inadequate sewer system. TSEP funds would provide a $25,000 deferred loan to prepare an engineering plan to solve the community's sewer system problems. Repayment would be due when the sewer project is constructed or within five years, whichever is first.

WHEATLAND COUNTY (Engineering Loan)

TSEP Deferred Loan:	$33,000	
Other Funds:	$ 2,000	City-County Planning Board
Total Project:	$35,000	

The county has no landfills which comply with state standards. TSEP funds would provide a $33,000 deferred loan to prepare an engineering study and plan to solve the county's solid waste management problems. Repayment would be due when project is constructed or within five years, whichever is first.

YELLOWSTONE COUNTY (King Avenue Bridge)

TSEP Grant:	$ 95,500	
Other Funds:	$ 49,860	County Bridge Fund
	$ 47,750	United Industry (private development contribution)
Total Project:	$ 193,110	

MDOT considers this bridge a serious public safety issue. Existing bridge creates traffic bottleneck and accidents. Project would also facilitate construction of a 400,000 square foot retail development in area.

YELLOWSTONE CO. - SHEPHERD (Engineering Loan) (Water)

TSEP Deferred Loan: $ 85,000

The unincorporated community of Shepherd currently relies on individual wells for water. TSEP funds would provide a $85,000 deferred loan to prepare a preliminary engineering plan for a community water system to solve the area's water quality problems. Repayment would be due when the water project is constructed or within five years, whichever is first.

SUMMARY OF TOTAL PUBLIC INVESTMENT IN TSEP PROJECTS

TOTAL PROJECTS: 24

TOTAL TSEP FUNDS: $ 4,134,458

TOTAL OTHER FUNDS: $ 33,929,434

TOTAL ALL FUNDS: $ 38,063,894

APPENDIX D

FINANCIAL INDICATORS FOR DETERMINING APPROPRIATE LEVELS OF TSEP ASSISTANCE

The fifth statutory priority for TSEP projects gives preference to:

"Projects that reflect greater need for financial assistance than other projects."

In order to score applications on this priority, DOC staff will prepare a financial assessment to help determine each applicant's relative need for TSEP assistance. The financial assessment will also serve as the basis for DOC's recommendations regarding the amount of financial assistance to be awarded each project.

During the original legislative discussion of TSEP, several legislators stated that communities should make maximum effort to pay for local public facility projects with their own resources before they ask the State to subsidize a local project. There was also a strong consensus among the local officials and legislators that participated in the fall, 1992 public hearings on the initial TSEP guidelines that communities should participate in the funding of any public facility project in proportion to their financial resources.

The major challenge is then to try to define "reasonable local effort." During the fall, 1992 hearings, local officials suggested several indicators that should be looked at in analyzing local financial capability. In response to these comments, the final guidelines incorporate a variety of financial indicators for comparing local participation in TSEP-assisted public facility projects. None of the indicators viewed individually may give a clear picture of the applicant's need for TSEP assistance. However, when taken together, they do provide a reasonable and consistent basis for evaluating the overall financial capacity of each applicant.

Water and Sewer Projects

While some financial indicators are suitable for all types of projects, others are only appropriate for water or sewer projects. (Eighteen of the 29 applications for TSEP construction projects submitted to the 1993 Legislature involved water or sewer facilities.) The key indicators to be used for water and sewer projects are:

1. User Charges Relative to Median Household Income

Previously, the TSEP Application Guidelines used a guideline adapted from one used for many years by the U.S.D.A. Farmers Home Administration (FmHA) and for the last six years by Montana's Community Development Block Grant Program to determine "reasonable local effort" for financing sewer and water projects. This guideline used 1% of a community's median household income (MHI) as a guide for defining a minimum "affordable" user charge for water or sewer charges. This approach is based on the assumption that the ability to pay a particular user rate is related to the median income level in a community and that communities with higher median incomes can afford higher user rates than those with lower median incomes. Use of the 1% MHI rate calculation also allows a relatively easy and fair comparison between communities.

For example, based on 1990 Census data, the 1989 annual median household income for Montana was $22,988. Applying the 1% MHI guideline, one percent of $22,988 equals $229.88. This amount, divided by twelve months would indicate an equivalent target monthly user charge of $19.16 per month. The 1% guideline was based on 1980 MHI levels and construction costs in the 1980's, which resulted in an average 1% of MHI target rate of approximately $25 per month, when maintenance and operation charges were included.

Recently, because of the increasing cost of new water and sewer facilities, current monthly user charges for recently improved water and sewer facilities are averaging about $30 per month, including $5-10 per month charges for operation and maintenance. This amount calculated on an annual basis equals $360 or an amount equal to about 1.5% of Montana's median family income, $22,988 (1990 Census).

Therefore, during the review of 1994-1995 TSEP applications, DOC will use 1.5% of a community's median household income as a general guide to analyze whether a community's user charge for sewer or water services demonstrates "reasonable local effort." This means that the applicant should propose a funding strategy or package where the proposed user charge, for the single facility to be assisted, is <u>at a minimum</u> equal to 1.5% of the community's MHI. An applicant whose proposed user charges for the single facility to be assisted would exceed 1.5% MHI would demonstrate an even greater need for TSEP assistance. (In computing the proposed user charge, the applicant must include all sources of funds, including the TSEP funds requested. There are additional requirements for computing the proposed charge, in order to ensure a fair comparison between all TSEP applicants. For details, see the Montana Public

Facilities Financial Information Form, Appendix E.)

2. Total Debt per Household Ratio Relative to Median Household Income

Debt per household is calculated by dividing the applicant's total long-term debt for the single facility to be assisted (including the new proposed debt to be incurred for the TSEP project) by the total number of households that would benefit from the proposed project. During the review of 1992-1993 TSEP applications, DOC used $2,000 of bonded indebtedness per household for a single utility as a guideline beyond which the overall debt burden may become excessive for community residents. This debt to household ratio is an industry norm used by bond underwriters to evaluate the capacity of local governments to incur additional bonded indebtedness. This range is equivalent to 9% of Montana's 1990 median household income (MHI) $22,988. As with the use of the percentage of MHI as a guide for affordable user charges, it is based on the assumption that the ability to carry a particular level of debt is related to the median income level in a community and that communities with higher median incomes can afford to carry higher levels of debt than those with lower median incomes.

The 9% MHI indicator for bonded indebtedness will be used by DOC as a general guide for defining the upper limits of a "reasonable" level of debt for a single utility. This means that, if possible, the applicant should propose a financing package where the proposed bonded indebtedness, for the single utility to be assisted, would be a maximum of 9% of the community's MHI. Applicants whose proposed bonded indebtedness exceeds 9% would demonstrate an even greater need for TSEP assistance.

In addition, DOC will analyze both the applicant's level of debt for the utility to be assisted by TSEP as well as the overall level of long-term (bonded) indebtedness for all basic utilities (water, sewer, and solid waste) relative to MHI.

Applicants will use the "Montana Public Facilities Financial Information Form" (Appendix E) to report information on long-term debt.

3. Combined Water and Sewer Rates

A third financial indicator to be used for water and sewer projects is the proposed rate for the utility for which TSEP assistance is requested (such as water) plus the current monthly per household charge for the other basic utility

(such as sewer). The total of the projected water and sewer rates per month for each community will be compared with other TSEP applicants. The combined rate will also be calculated as a percentage of the community's MHI and compared to other TSEP applicants. This will give DOC a picture of the overall user charge burden for households in each community. DOC will compute this indicator from data supplied by the applicant on the Montana Public Facilities Financial Information Form (Appendix E).

4. **The Affordability Index**

The "affordability index" or ranking will compare the relative ability of each applicant to pay the costs of additional local government public works improvements. **The "index" is a summation of an average household's total obligation for local government user fees and tax payments divided by the community's median household income.** For this calculation, DOC will analyze local government user fees including current annual water, sewer and solid waste charges plus the increased fees the applicant will incur with its proposed TSEP project. The local government's overall tax burden will be determined by multiplying the total mill levy (which includes municipal or county mills plus education mills) in the county or municipal taxing jurisdiction by the average value of a residence in the jurisdiction. The fees and tax burden will be added together and divided by the median household income for the municipality, county, or county census division for unincorporated areas.

In order to make similar comparisons, municipalities will be compared and ranked against each other. The same will be done with counties and county water/sewer districts. DOC will compute the affordability index from data supplied by the applicant on the Montana Public Facilities Form (Appendix E) and from data from other statewide sources.

The impetus for the development of this financial indicator came from the comments from local officials during the fall, 1992 TSEP hearings that DOC should attempt to compare each community's <u>overall</u> financial burden per household in considering the need for TSEP assistance.

<u>Bridge, Solid Waste, and Storm Drainage Projects</u>

Unlike water and sewer projects, there are no generally accepted standards for determining a community's ability to afford projects such as bridges, storm sewers, and solid waste disposal systems. DOC will base its financial analysis of these projects on a comparison of the "Affordability Index" for each applicant, projected

debt per household, and projected per household fees or assessments for applicants submitting similar projects for TSEP assistance.

NOTE: Each TSEP applicant must provide a completed copy of the TSEP "Montana Public Facilities Financial Information Form" (Appendix E) to provide a common basis for comparison of the financial situation of all TSEP applicants. The pertinent information referred to above will be provided by completing this form.

APPENDIX E: TSEP APPLICATION FORMS

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SAMPLE RESOLUTION TO AUTHORIZE TSEP APPLICATION	79

DRAFT

TREASURE STATE ENDOWMENT PROGRAM (TSEP)
APPLICATION FORMAT

1. Applications should be as concise as possible, however, the applicant may use as many pages as necessary to adequately explain the proposed project. Only information pertaining directly to the proposal should be included.

2. Applications should be submitted on standard 8 1/2 x 11-inch paper, with maps and large sheets folded to an 8 1/2 X 11-inch size.

3. Pages should be numbered consecutively.

4. Supporting documents should be placed in an appendix. Supporting documents include items such as public hearing notices, maps, local government resolutions, survey forms, financial statements, or letters of commitment. Appendices should be listed in the table of contents.

5. Applications should be bound along the left margin in some manner. Tabs on the right side of the applications should be used to mark sections and appendices.

6. Organize the TSEP application according to the following outline:

   a. **Application Cover Form**

      The Department of Commerce (DOC) TSEP Cover Form must be completed and signed by the chief elected official or executive officer of the applicant's governing body.)

   b. **Table of Contents**

   c. **Project Summary**

      Each applicant must provide a concise summary of its project, not to exceed 300 words (one typewritten page).

   d. **Preliminary Engineering Report**

      Each applicant must provide a preliminary engineering report which

describes the rationale for the proposed construction project and the improvements which are proposed. The report may be incorporated within the narrative text or as an appendix to the application.

e. **Response to Legislative Priorities for TSEP Projects**

Each applicant must provide a narrative which describes the relationship of the proposed TSEP project to each of the nine legislative priorities for TSEP projects.

f. **Budget Form and Narrative**

Each applicant must provide a completed copy of the DOC TSEP Budget Form (Appendix E) along with a narrative which justifies the specific budget proposed, including a breakdown of all major project costs and description of the sources and amounts of all non-TSEP funds to be used.

g. **Montana Public Facilities Financial Information Form**

Each applicant must provide a completed copy of the DOC Montana Public Facilities Financial Information Form (Appendix E) to provide a common basis for comparison of the financial situations of all TSEP applicants. Part 2 of this form ("Funding Strategy") requires the applicant to describe the status of all non-TSEP funds needed to complete the project (including financial terms and conditions), any special conditions applicable to each source of funds, when the funds will be available, and how the funds will be coordinated with the proposed TSEP funding.

i. **Appendices**

(1) Resolution to Authorize Application, signed and dated (see DOC Model Format)

(2) Maps

(3) Implementation Schedule

(4) TSEP Environmental Checklist

(5) Other Supporting Documentation

7. Five copies of the TSEP application and attachments must be submitted by applicants.

8. Application Deadlines: Applications for TSEP funding must be delivered or postmarked on or before **June 15, 1994.**

9. Copies of applications for TSEP funding and all attachments must be submitted to:

Local Government Assistance Division
Montana Department of Commerce
1424 9th Avenue
Capitol Station
Helena, MT 59620

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MONTANA TREASURE STATE ENDOWMENT PROGRAM (TSEP)

APPLICATION COVER FORM

(Please type or print)

1. NAME OF APPLICANT(S): _____

2. POPULATION OF APPLICANT(S): _____

   POPULATION OF PROJECT AREA: _____

3. NUMBER OF HOUSEHOLDS WITHIN PROJECT AREA: _____

4. CHIEF ELECTED OFFICIAL (or EXECUTIVE OFFICER)

   Name: _____

   Title: _____

5. MAILING ADDRESS:
   Street/P.O.Box: _____

   _____
   City State Zip

   _____
   Telephone

6. CONTACT PERSON:

   Name: _____

   Title/Firm: _____

   MAILING ADDRESS:
   Street/P.O.Box: _____

   _____
   City State Zip

   _____
   Telephone

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7. TYPE OF APPLICATION:

(1) Bridge ____
(2) Drinking Water ____
(3) Solid Waste ____
(4) Storm Drainage ____
(5) Wastewater Treatment ____

8. PROPOSED FUNDING:

a. TSEP Funds Requested in this application:

Matching Grant: $_____
Total Annual Debt Service Subsidy: $_____

(Above Equals Annual Subsidy) X $_____
(Number of Years Requested) $_____
Loan with Subsidized Interest Rate: $_____
Preliminary Engineering Loan: $_____

b. Funds to be supplied by applicant: $_____

c. Other Local, State or Federal Funds:

Source: _____ Amount: $_____
_____ Amount: $_____
_____ Amount: $_____

d. Private Funds:

Source: _____ Amount: $_____
_____ Amount: $_____
_____ Amount: $_____

e. TOTAL PROJECT: (Total Lines a,b,c,d) $_____

9. To the best of my knowledge and belief, the information in the attached application is true and correct.

_____ _____
Signature of Chief Elected Official (or Executive Officer) Date

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INSTRUCTIONS FOR COMPLETING

THE "MONTANA TSEP PROGRAM APPLICATION COVER FORM"

1. APPLICANTS:

   Enter name(s), of the municipality(ies) or county(ies) or water, sewer, or solid waste district(s) submitting the application.

2. POPULATION:

   Enter the 1990 Census population of the applicant and the project area (if available).

3. HOUSEHOLDS:

   Enter the number of residential households within the proposed project area.

4. CHIEF ELECTED OFFICIAL:

   Enter the name and title of the chief elected official or chief executive officer of the applicant.

5. MAILING ADDRESS:

   Enter the mailing address and business telephone number for the applicant.

6. CONTACT PERSON:

   Give the name, mailing address and business telephone number of the person designated as the contact person for the application. This person should be knowledgeable about the application and be authorized to speak on behalf of the applicant regarding the application.

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7. TYPE OF APPLICATION:

Check the type of project you are proposing. (Check only one).

8. PROPOSED FUNDING:

Enter the following figures:

(a) The amount of TSEP funds being requested in this application (specify the total amount of the TSEP matching grant, annual debt service subsidy, loan with a subsidized interest rate or preliminary engineering loan).

(b) The amount of any funds to be provided by the applicant as part of the total project budget.

(c) The amount of other public (federal, state and/or local) funds to be used in the project. If none, enter 0.

(d) The amount of private funds to be used in the project. If none, enter 0.

(e) The total cost of the project. (This figure should equal a + b + c + d.)

9. SIGNATURE OF CHIEF ELECTED OFFICIAL OR EXECUTIVE OFFICER:

The chief elected official or executive officer of the applicant must sign the Application Cover Form and the Resolution to Authorize Submission of the TSEP Application. It is not necessary to submit a copy containing original signatures.

Five copies of applications for TSEP funding and all attachments must be delivered or postmarked by June 15, 1994 to:

Local Government Assistance Division
Montana Department of Commerce
1424 9th Avenue
Capitol Station
Helena, MT 59620

If you have any questions regarding the Treasure State Endowment Program or the application guidelines, telephone DOC TSEP staff at (406) 444-3757.

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TSEP BUDGET FORM

ADMINISTRATION	TSEP	OTHER:	OTHER:	TOTAL
PERSONAL SERVICES				
OFFICE COSTS				
Supplies				
Postage & Printing				
Telephone				
PROFESSIONAL SERVICES				
Consulting				
Legal				
Audit				
OTHER				
Travel & Training				
TOTAL ADMINISTRATION				
ACTIVITY:				
Land Acquisition				
Engineering				
Construction				
Contingency				
Monitoring				
Total TSEP Activity Budget				
TOTAL TSEP PROJECT BUDGET				

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MONTANA PUBLIC FACILITIES FINANCIAL INFORMATION FORM

This form will be utilized to evaluate applications for financial assistance from three Montana public facility funding programs: the Community Development Block Grant Program and Treasure State Endowment Program administered by the Department of Commerce and the Renewable Resources Program administered by the Department of Natural Resources and Conservation. The information requested allows the applicant to demonstrate the community's need for the public funds requested. The information is also crucial for the funding program's assessment of the applicant's need for financing, in comparison to other applicants. Public funds are very limited and, thus, must be rationed. The agency must determine the financing "gap" (the shortfall between the funds the applicant can reasonable provide and the total cost of the project). The funding agency will strive to award the minimum amount of funds necessary to complete a project that will achieve a reasonably affordable annual cost for the citizens affected. This approach allows the most efficient expenditure of public funds and allows the funding of more projects for more communities.

This form must be completed by each applicant for funding in order to help state agencies evaluate the applicant's need for assistance. The form is divided into two separate parts, as follows:

1. Part 1, Current Financial Information, relates to an applicant's current financial situation and existing household user charges for water, sanitary sewer, solid waste disposal, storm sewer and other services, regardless of the type of project being considered, and

2. Part 2, Proposed Funding (Funding Strategy), relates to an applicant's projected costs and financial impacts related to the actual, specific utility or facility proposed to be assisted with state or federal funds.

Please fill in the information requested in the spaces provided below. The information should be based on Fiscal Year 1993 records. Much of the information requested is included in the local government's most recent Annual Financial Report submitted to the Department of Commerce for Fiscal Year 1993.

Name of Applicant: _____

Type of Project (water, sanitary sewer, solid waste, storm sewer, etc.):

_____

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PART 1. CURRENT FINANCIAL INFORMATION

A. Outstanding Debt (Current Plus Outstanding) and Cash Reserves:

1. For cities, towns or consolidated governments:

Purpose: _____ Amount: $_____ Year Retired:_____
Purpose: _____ Amount: $_____ Year Retired:_____
Purpose: _____ Amount: $_____ Year Retired:_____
Purpose: _____ Amount: $_____ Year Retired:_____

2. For the county, if a county-wide project:

Purpose: _____ Amount: $_____ Year Retired:_____
Purpose: _____ Amount: $_____ Year Retired:_____
Purpose: _____ Amount: $_____ Year Retired:_____
Purpose: _____ Amount: $_____ Year Retired:_____

3. Water, sewer, solid waste, irrigation district or other, if applicable:

Purpose: _____ Amount: $_____ Year Retired:_____
Purpose: _____ Amount: $_____ Year Retired:_____

B. Non-Obligated Cash Reserves

If applicable, state the amount of any non-obligated local government cash reserves, exceeding $25,000 or more, which the applicant currently holds in certificates of deposits, trust funds or other similar investment accounts.

_____
_____
_____

C. Existing Residential Household User Charges:

Number of Residential Households Served by System or Facility: _____

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1. Existing average monthly residential service charge or assessment per household for water, sanitary sewer, solid waste, and storm sewer:

   Note: This information is requested from all applicants regardless of the specific facility proposed to be assisted. Existing rates must be based on average monthly charges for residential households. The average monthly charge must be calculated based upon the total monthly city-wide or district-wide revenues for the utility divided by the total number of residential housing units served. The charges represented should include debt service and day-to-day operation and maintenance charges, but must exclude any charges to fund reserves for depreciation or capital replacement. (Do not include commercial, industrial or institutional rates in these calculations.)

   Water:

   Total Monthly System Residential User Revenues: $_____

   Total Number of Residential Housing Units Served: $_____

   Average Monthly Residential Household Charge: $_____

   = (Total Monthly Residential Revenues Divided by Number of Housing Units Served)

   Portion of Average Monthly Residential Charge Devoted to:

   Debt Service: $_____

   Operation & Maintenance $_____

   Other Charges (Specify)

   _____ $_____

   Sanitary Sewer:

   Total Monthly System Residential User Revenues: $_____

   Total Number of Residential Housing Units Served: $_____

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Average Monthly Residential Household Charge: $_____

= (Total Monthly Residential Revenues Divided by Number of Housing Units Served)

Portion of Average Monthly Residential Charge Devoted to:

Debt Service: $_____

Operation & Maintenance $_____

Other Charges (Specify)

_____ $_____

Solid Waste:

Total Monthly System Residential User Revenues: $_____

Total Number of Residential Housing Units Served: $_____

Average Monthly Residential Household Charge: $_____

= (Total Monthly Residential Revenues Divided by Number of Housing Units Served)

Portion of Average Monthly Residential Charge Devoted to:

Debt Service $_____

Operation & Maintenance $_____

Other Charges (Specify)

_____ $_____

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Storm Sewer:

Total Monthly System Residential User Revenues: $_____

Total Number of Residential Housing Units Served: $_____

Average Monthly Residential Household Charge: $_____

Portion of Average Monthly Residential Charge Devoted to:

Debt Service $_____

Operation & Maintenance $_____

Other Charges (Specify)

_____ $_____

PART 2. PROPOSED FUNDING STRATEGY

A. Total Mix of Project Funds, Including Funds To Be Supplied by Applicant, and All Other Local, State, and Federal Grant or Loan Funds:

FUNDING SUMMARY:

	Column 1	Column 2	Column 3	Column 4
	Source:	Amount:	Form (Grant or Loan)	Level of Commitment (Fully Committed/ Uncommitted)
a.	_____	$ _____	_____	_____
b.	_____	$ _____	_____	_____
c.	_____	$ _____	_____	_____
d.	_____	$ _____	_____	_____
e.	_____	$ _____	_____	_____

TOTAL PROJECT COST $_____

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B. Funding Strategy Narrative Attachment

The applicant must prepare and attach to this form a written Funding Strategy Narrative describing:

1. The financial terms and conditions applicable to each source of funds listed in the Funding Summary (e.g., Describe interest rates and repayment terms for loans and bond issues);

2. Any special conditions on the use of each source of funds listed in the Funding Summary;

3. When each source of funds will be available (month and year);

4. The level of commitment for each source of funds. (e.g., "Fully committed" for a public funding agency means that a letter is available from the funding agency indicating all paperwork is complete, a contract has been signed, and the local government is authorized to spend funds.);

5. How each source of funds will be coordinated with the requested TSEP funding;

6. The applicant's overall efforts to secure alternative or additional funds from public and private sources (e.g., sources not previously mentioned or deemed inappropriate);

7. The level of local financial participation in the project and whether that level is the maximum that the applicant can reasonably provide (provide supporting information).

NOTE: The Funding Strategy Narrative must elaborate on the information provided on each funding source in "Funding Summary" (Part 2A, previous page).

C. Projected Residential Household User Charges Based Upon Proposed Funding Strategy

Calculate an average monthly user charge or assessment per residential household for the utility or facility, assuming the maximum amount of grant sources listed in A above. Please calculate all loans and future debt charges based upon interest rates and terms applicable to the particular program from which assistance is being sought. Please attach extra sheets showing all calculations to explain the basis for the projected user charges or assessments.

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Projected Monthly User Charge or Assessment Based Upon Proposed Funding Strategy:

Debt Service: $_____
Operation and Maintenance: $_____
Other Charge (specify): $_____
_____

Total Charge per Residential Household: $_____

C. **Projected Residential Household User Charges Should Uncommitted Funds Not Be Received**

Calculate an average monthly charge or assessment per residential household for the utility or facility, assuming that all of the uncommitted funds listed in A above are not received.

Note: This information will allow state funding agencies to analyze the financial impact upon the applicant in the event the requested financial assistance is received. In order to provide a common basis for comparison of all applicants, please calculate all loans and debt service charges based upon a 6.0 % annual interest rate over a 20-year term to finance the proposed project. Please attach extra pages showing all calculations.

Projected Monthly User Charge Should the Uncommitted Funds Not Be Received:

Debt Service: $_____
Operation and Maintenance: $_____
Other Charges (specify): $_____
_____

Total Projected Charge per Residential Household: $_____

CERTIFICATION

I certify that the information submitted for this Montana Public Facilities Financial Information Form, including the attached Funding Strategy narrative, is correct to the best of my knowledge.

_____
Signature/Chief Elected Official

_____
Date

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MONTANA TSEP PROGRAM

SAMPLE RESOLUTION TO AUTHORIZE SUBMISSION OF APPLICATION

Note: Each applicant is required to submit a resolution from the local governing body authorizing submission of the application. The following is a sample format.

WHEREAS, the (Name of applicant) is applying to the Montana Department of Commerce for financial assistance from the Treasure State Endowment Program (TSEP) to (describe purpose of project);

WHEREAS, the (Name of applicant) has the legal jurisdiction and authority to construct, finance, operate, and maintain (the proposed public facility);

That the (Name of applicant) has held at least one advertised public hearing in the area of the proposed TSEP project to inform local citizens and affected property owners regarding the components and projected costs of the proposed project;

That the (Name of applicant) agrees to comply with the requirements described in the 1994-1995 TSEP Application Guidelines; and

That (name of Chief Elected Official or Chief Executive Officer), (title) is authorized to submit this application to the Montana Department of Commerce, on behalf of (Name of applicant), to act on its behalf and to provide such additional information as may be required.

Signed _____

Name _____

Title _____

Date _____

Attested _____

APPENDIX F

APPLICATION SCORING SYSTEM AND RANKING CRITERIA

A. APPLICATION SCORING SYSTEM

The TSEP Enable Statute requires DOC to recommend a list of projects for TSEP funding, giving preference according to the Legislature's order of priority for projects and to recommend the form of financial assistance for each.

Each TSEP applicant is required to submit a narrative as part of its application which describes the relationship of the proposed TSEP project to the statutory priorities for TSEP projects.

Each application will be assigned points based upon the extent to which the proposed project is consistent with and responds to each statutory priority, in comparison to the other TSEP applications submitted, as follows:

BEST	Total Available Points
ABOVE AVERAGE	Three-Fourths Available Points
AVERAGE	One-Half Available Points
BELOW AVERAGE	One-Fourth Available Points
NOT APPLICABLE/MINIMAL RELATIONSHIP	Zero Points

The total number of points assigned to each TSEP application will be based upon its cumulative response to the ten statutory priorities for TSEP projects.

B. STATUTORY ORDER OF PRIORITY FOR TSEP PROJECTS

A declining numerical score has been assigned to each succeeding criterion to reflect the Legislature's order of priority for funding TSEP projects. The TSEP statutory criteria and the numerical score for each are listed below, in order of priority.

	MAXIMUM POSSIBLE
Legislative Criterion #1 (Urgent or Serious Health or Safety Problems)	1000 Points
Legislative Criterion #2 (Compliance with State or Federal Standards)	900 Points
Legislative Criterion #3 (Appropriate Design and Long-Term Solution)	800 Points
Legislative Criterion #4 (Cost-effective Public Benefit)	700 Points
Legislative Criterion #5 (Greater Financial Need)	600 Points
Legislative Criterion #6 (Funds from Other Sources)	500 Points
Legislative Criterion #7 (Long-term, Full-time Jobs)	400 Points
Legislative Criterion #8 (Business Expansion)	300 Points
Legislative Criterion #9 (Maintenance of Tax Base)	200 Points
Legislative Criterion #10 (Community Support)	100 Points
TOTAL	5500 Points

THE TOTAL MAXIMUM POSSIBLE NUMBER OF POINTS = 5500 POINTS

C. TSEP STATUTORY PRIORITIES AND RANKING CONSIDERATIONS

The following section lists the ten statutory priorities for TSEP projects, along with the major issues which will be considered by DOC in evaluating each applicant's response. A review of the key questions DOC will consider in ranking applicants will be helpful to TSEP applicants in preparing their responses to each priority.

LEGISLATIVE PRIORITY #1 — 1000 Points

Projects that solve urgent and serious public health or safety problems.

a. Does serious deficiency exist in a basic or necessary community public facility or service, such as the provision of a safe domestic water supply (or that the community lacks the facility or services entirely)?

b. Have circumstances clearly attributable to a deficiency occurred, or are they likely to occur, such as serious illness, disease outbreak, substantial property loss, serious environmental pollution, or serious safety problems or hazards?

c. Is the entire community or a substantial portion of the residents of the community seriously affected by the deficiency?

d. Is the problem existing, continual, and chronic as opposed to occasional, sporadic, probable or potential?

e. Is there written documentation from state or federal agencies which substantiates the seriousness of the deficiency, such as a "boil order" issued by the Montana Department of Health and Environmental Sciences?

LEGISLATIVE PRIORITY #2 — 900 Points

Projects that enable local governments to meet state or federal health or safety standards.

a. Is the proposed TSEP project necessary to comply with a court order or a state or federal agency directive?

b. Is there clear documentation that the current condition of the public facility (or lack of a facility) violates a state or federal health or safety standard?

c. Does the health or safety standard which is being violated represent a significant threat to public health or safety (after considering the scoring factors listed for Legislative Priority #1)?

d. Does the project thoroughly address the problem and provide a reasonably complete and long-term solution for compliance with the health or safety standard?

LEGISLATIVE PRIORITY #3 800 Points

Projects that incorporate appropriate, cost-effective technical design and that provide thorough, long-term solutions to community public facility needs.

a. Does the project thoroughly address the problem and provide a reasonably complete and long-term solution in relation to the applicant's financial capacity and available funding sources?

b. After thoroughly considering all reasonable alternatives, does the technical design proposed for the project represent the most efficient, appropriate, and cost-effective option for resolving the local public facility need, considering the size and resources of the community, the complexity of the problems addressed, and the cost of the project?

c. Are there any apparent environmental or technical problems which could delay or prevent the proposed project from being carried out or which could add significantly to project costs?

d. For projects involving community water system improvements, has the conversion to a water metering system been thoroughly analyzed and has the applicant decided to install meters? In those cases where meters are not proposed, does the applicant's preliminary engineering study clearly demonstrate that the use of meters is not feasible or appropriate"

LEGISLATIVE PRIORITY #4 700 Points

Projects that result in a benefit to the public commensurate with the amount of financial assistance requested. However, the benefit to the public may not be measured by population alone.

a. Does the project thoroughly address the problem and provide a reasonably complete and long-term solution in relation to the applicant's financial capacity and available funding sources?

b. In cases where the proposed project will not completely resolve the community's public facilities need, is the project consistent with an adopted capital improvements program and does it represent a complete component of the overall program?

c. Has the applicant proposed equitable, cost-effective means of minimizing adverse

financial impacts or maximizing benefits, such as establishing a metered water system to encourage conservation and to allocate costs on the basis of actual use?

d. After thoroughly considering all reasonable alternatives, does the proposed project represent the most efficient, appropriate and cost effective option for resolving the applicant's public facility need, considering the size and financial resources of the community, the complexity of the problems addressed, and the cost of the project?

e. In the case of TSEP matching grants, is the amount of TSEP funds requested per household to be assisted less than $5,000 per household, unless both affordability tests described in the TSEP Application Guidelines are met?

LEGISLATIVE PRIORITY #5 — 600 Points

Projects that reflect greater need for financial assistance than other projects.

a. Does DOC's comparative analysis of financial indicators for all TSEP applicants demonstrate that the applicant's need for TSEP assistance is greater than other applicants?

b. Does DOC's analysis of the proposed project budget, financing strategy (package), and local financial capability clearly support the applicant's lack of ability to pay the projected costs without TSEP assistance and that the applicant's proposed level of local financial participation in the project is the maximum that can reasonably be expected?

c. Has the applicant clearly documented that all avenues to fund the proposed project with local resources have been exhausted and the proposed project could not reasonably be accomplished without TSEP assistance to fill a financial gap?

NOTE: Applicants may reference their completed Montana Public Facilities Financial Information Form (Appendix E) as their response to this Legislative Priority.

LEGISLATIVE PRIORITY #6 — 500 Points

Projects that enable local governments to obtain funds from sources other than TSEP.

a. Will TSEP participation in the proposed project enable or assist the applicant to obtain funds from sources other than TSEP?

b. Will the proposed TSEP project leverage a high ratio of non-TSEP investment in relation to the TSEP funds requested?

c. Are non-TSEP funding sources firmly committed and will they be available when TSEP funds are provided?

d. If firm non-TSEP funding commitments have not been secured, has the applicant provided evidence of serious efforts to thoroughly seek out and secure the firm commitment of alternative or additional funds from all appropriate public or private sources to assist in financing the proposed project?

Note: Applicants may reference their completed Montana Public Facilities Financial Information Form (Appendix E) as their response to this Legislative Priority.

LEGISLATIVE PRIORITY #7 — 400 Points

Projects that provide long-term, full-time job opportunities for Montanans.

a. Has the applicant strongly documented that the proposed TSEP project will directly result in the creation or retention of a substantial number of long-term, full-time jobs for Montanans?

b. Has the applicant clearly justified and documented the claimed number of indirect long-term, full-time jobs to be created or retained as a result of the TSEP project?

LEGISLATIVE PRIORITY #8 — 300 Points

Projects that provide public facilities necessary for the expansion of a business that has a high potential for financial success.

a. Has the applicant thoroughly documented that the proposed business expansion requires TSEP assistance to provide public facilities in order to proceed?

b. Is the business plan for the specific firm(s) to be assisted by the proposed TSEP project a realistic, well-reasoned business expansion proposal and does it clearly demonstrate that the firm to be assisted has a high potential for financial success, if TSEP funds are received?

LEGISLATIVE PRIORITY #9 — 200 Points

Projects that maintain or do not discourage expansion of the tax base.

a. Has the applicant provided clear documentation that the proposed TSEP project will support and not discourage expansion of the private property tax base?

b. Did the applicant seriously evaluate the option of utilizing the private sector to resolve the identified public facility problem, in situations where a private sector

alternative may be reasonably appropriate and capable of providing a long-term, cost-effective solution?

LEGISLATIVE PRIORITY #10 100 Points

Projects that are high local priorities and have strong community support.

a. Did the applicant provide thorough documentation of active citizen participation, including at least one public hearing held to discuss the proposed TSEP project with the affected community residents?

b. Has the applicant provided thorough documentation that local citizens and affected property owners have been informed of the estimated cost per household of any anticipated increases in assessments or user charges and are in support of the project?

c. Has the applicant assessed its public facility needs, established priorities for dealing with them through an officially adopted public facilities plan or a capital improvements program, and is the proposed TSEP project a high priority of that plan or program?

NOTE: Documentation may include public hearing minutes, community surveys, letters of support from organizations or individuals, newspaper articles, etc.

ENVIRONMENTAL IMPACT

The Montana Environmental Policy Act seeks to avoid or mitigate adverse impacts on the natural and human environment by mandating careful consideration of the potential impacts of any development to be assisted with state funds. In addition, TSEP projects are subject to numerous other state environmental laws.

a. Has the applicant adequately assessed potential environmental impacts?
b. Based on the information provided by the applicant, are any adverse long-term environmental impacts anticipated as a result of this project? If so, has the applicant proposed reasonable measures to mitigate the potential adverse impacts?

APPENDIX G

TSEP ENVIRONMENTAL CHECKLIST

Introduction

Montana Environmental Policy Act (MEPA) seeks to avoid or mitigate adverse impacts on the environment by mandating careful consideration of the potential impacts of any development assisted with state funds or approved by a state agency. In addition, TSEP projects are subject to numerous other state environmental laws. In order to avoid problems which could cause delays, add significantly to project costs, or even prevent a project from being carried out, applicants are encouraged to be sensitive to potential environmental impacts when initially planning their TSEP projects.

Communities that have had experience with federally-funded infrastructure programs, such as CDBG or the Farmers Home Administration, are aware that the detailed evaluation of potential environmental impacts required by the National Environmental Policy Act, normally takes place after the initial funding award has occurred. MEPA, likewise, requires that all "agencies" of the state consider the environmental impacts of proposed projects. However, TSEP projects are exempt from standard MEPA environmental assessment procedures because all TSEP projects are approved by the Legislature rather than a state agency. For this reason, all TSEP applicants are required to complete the following environmental checklist as part of their application. The information provided by the checklist will allow DOC to advise legislators regarding potential environmental impacts before projects are approved by the Legislature.

The checklist can also alert TSEP applicants to considerations that may have to be addressed in the location, design, or construction of a public facilities project to avoid potential adverse environmental effects or expensive mitigation or construction costs.

NOTE: The text of the environmental checklist will be included in the final version of the TSEP Application Guidelines.